[COMPARATIVE COMMITTEE PRINT]

DESCRIPTION OF THE TAX PROVISIONS

OF

H.R. 4961

AS PASSED BY THE HOUSE AND THE SENATE

Prepared for the Use of the House and Senate Conferees

By the Staff of the

Joint Committee on Taxation

August 3, 1982

96-954 O U.S. GOVERNMENT PRINTING OFFICE: 1982 JCS-30-82

J862-30
S362-26
H782-28

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INTRODUCTION

This document is prepared for the use of the conferees on the tax provisions of H.R. 4961 as passed by the House (title I of the House-passed bill) and amended by the Senate (titles II and III of the bill as passed by the Senate).

The first part of the document is the legislative background on H.R. 4961. The second part is a description of the tax provisions of the bill as passed the House (with a reference to other Senate action on those provisions). Two tax provisions of House-passed H.R. 4961 (relating to rental of family residences and NOL carryover rule effective date) were subsequently enacted in Public Law 97-119, and are not described in this document. The third part describes the tax provisions of the bill as amended by the Senate. Finally, the fourth part presents the estimated revenue effects of the tax provisions of H.R. 4961 as passed the House and the Senate.

I. LEGISLATIVE BACKGROUND OF H.R. 4961

H.R. 4961 as passed by the House

H.R. 4961, as reported by the House Committee on Ways and Means on December 14, 1981 (H. Rept. No. 97-404), contained six income tax and excise tax provisions [1] (title I of the bill), together with certain unemployment compensation and welfare provisions (title II of the bill). The bill was passed by the House without amendment on December 15, 1981, and thereafter was referred in the Senate to the Committee on Finance.

Action relating to provisions of House-passed H.R. 4961

Provisions identical or comparable to two tax provisions of the House-passed H.R. 4961 (rental of residences to family members and two-year delay in application of certain NOL rules) were added as Senate amendments to another House bill, H.R. 5159, and enacted as part of the Black Lung Benefits Revenue Act of 1981 (Public Law 97-119).

On December 16, 1981, the Senate passed H.R. 4717, with amendments, including provisions identical or comparable to three of the tax provisions contained in H.R. 4961 as passed by the House: (1) awarding of attorney fees in tax litigations; (2) treatment of certain lending or finance businesses as personal holding companies; and (3) refunds relating to repeal of the bus excise tax.[2]

On March 16, 1982, the House concurred in the Senate amendment to H.R. 4717 with an amendment in the nature of a substitute, and requested a conference on H.R. 4717.[3] The House-passed substitute for the Senate-amended H.R. 4717 included the House-passed version of H.R. 4961 except for the provisions previously enacted in Public Law 97-119.

Senate amendments to H.R. 4961

On July 2, 1982, the Senate Committee on Finance approved amendments in the nature of a substitute for the House-passed provisions of H.R. 4961, and reported the bill as amended on July 12, 1982 (S. Rept. No. 97-494). The Finance Committee action was in response to the Senate budget reconciliation requirement regarding spending reductions and revenue increases. As amended, the bill (the "Tax Equity and Fiscal Responsibility Act of 1982") contained four titles: title I (spending reductions); titles II and III (tax provisions); and title IV (Airport and Airway System Development provisions).

The Senate debated the reported bill on July 19-22, 1982, and passed the bill, with amendments, on July 22, 1982. On July 28, 1982, the Senate requested a conference with the House on the bill and appointed conferees.

House floor action on H.R. 4961 as amended by the Senate

On July 28, 1982, the House disagreed to the Senate amendments to H.R. 4961, agreed to a conference with the Senate on the bill, and appointed conferees.

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[1] The six tax provisions related to: (1) rental of residences to family members and other business uses of residences; (2) awarding of attorney fees in tax litigation; (3) treatment of certain lending or finance businesses for purposes of the tax on personal holding companies; (4) two-year delay in application of net operating loss rules added by the 1976 Tax Reform Act; (5) refunds relating to repeal of the excise tax on buses; and (6) modification of rules for acceleration of accrual of taxes.

[2] The Senate amendment to H.R. 4717 also included certain of the unemployment compensation provisions of H.R. 4961 as passed the House.

[3] A House-Senate Conference Committee met initially on H.R. 4717 on May 19, 1982, but did not complete consideration of the bill.

II. PROVISIONS IN THE HOUSE BILL.*

Item	Present law
1. Award of reasonable litigation costs where taxpayer prevails and government position was unreasonable	A taxpayer who prevails in civil tax litigation in the Federal courts (other than the U.S. Tax Court) may be awarded reasonable attorney fees and other litigation costs, unless the court finds that the position of the United States was substantially justified or that special circumstances make an award unjust.
	Damages for delay in Tax Court.—If a Tax Court proceeding has been instituted by the taxpayer merely for delay, the Court may award damages to the United States in an amount not to exceed $500.

*Two tax provisions of H.R. 4961 as passed the House were subsequently enacted in P.L. 97-119: (1) rental of family residences (sec. 280A) and (2) NOL carryover rule effective date. This document does not describe the unemployment compensation and welfare provisions of House-passed H.R. 4961.

House bill	Senate provision
	No provision in H.R. 4961; however, the Senate has passed a similar provision in H.R. 4717.
a. General rule.—A taxpayer who prevails in civil tax litigation in the Federal courts, including the U.S. Tax Court, may be awarded reasonable attorney fees and other litigation costs. The taxpayer may recover litigation costs only if the position of the United States in the case was unreasonable.	*a. General rule.*—Same as House bill, except that Senate provision provides explicitly that the taxpayer has the burden of establishing that the government's position was unreasonable.
b. Dollar limitation on award.—$50,000 (no special rule for multiple actions which involve the same taxpayer or which could be joined).	*b. Dollar limitation on award.*—$25,000 (special rule for multiple actions which involve the same taxpayer or which could be joined).
c. Third-party costs.—In litigation where the deductibility of contributions by a taxpayer to a charitable organization is the most significant issue, the organization (as well as the taxpayer) may recover costs incurred by it in the litigation if the taxpayer prevails, even though the charity is not a party to the action.	*c. Third party costs.*—A taxpayer could recover costs for a third party incurred by that party on behalf of the taxpayer.
d. Effective date.—The litigation costs provision applies to U.S. Tax Court cases begun after 1982, and to other Federal tax cases pending on, or begun after, October 1, 1981.	*d. Effective date.*—The litigation costs provision applies to civil tax litigation, including U.S. Tax Court cases, begun after May 31, 1982.
e. Termination date.—Does not apply to cases begun after September 30, 1984.	*e. Termination date.*—Does not apply to cases begun after May 31, 1987.
f. Damages for delay in Tax Court.—If U.S. Tax Court proceedings have been brought by a taxpayer primarily for delay, or if the taxpayer's position in a case is frivolous or groundless, the Court may award damages to the United States of up to $5,000, effective for Tax Court cases begun after 1981.	*f. Damages for delay in Tax Court.*—Same as House bill, except that the maximum damages awardable to the United States are $2,500 and that the provision is effective for Tax Court cases begun after May 31, 1982.
Revenue effect.—It is estimated that this provision will increase fiscal year budget outlays by less than $5 million per year.	*Revenue effect.*—It is estimated that this provision will increase fiscal year budget outlays by less than $5 million per year.

Item	Present law
2. Personal holding companies	A corporation actively engaged in a lending or finance business is excluded from the personal holding company tax provisions if the corporation has qualifying business expenses equal to 15 percent of the first $500,000 of ordinary gross income from its lending or finance business, plus 5 percent of such ordinary gross income from $500,000 to $1 million. The term "lending or finance business" is defined to include the business of making loans with maturities of not more than 60 months.
3. Additional refunds relating to repeal of the excise tax on buses	Before enactment of the Energy Tax Act of 1978, a 10-percent manufacturers excise tax was imposed on buses sold by a manufacturer, a producer, or an importer. The Energy Tax Act repealed that manufacturers excise tax on buses sold after November 9, 1978. The Energy Tax Act also contained provisions which effectively allowed, under certain conditions, exemption from the excise tax for buses sold to ultimate purchasers after April 19, 1977, and before November 10, 1978. Under these provisions, a manufacturer, a producer, or an importer was allowed a credit or refund (without interest) for the excise tax paid if— (1) the manufacturer, etc., possessed evidence of sale to the ultimate purchaser and of reimbursement of tax to that purchaser; (2) the manufacturer, etc., filed a claim for credit or refund with the Treasury Department before September 5, 1979; and (3) the manufacturer, etc., reimbursed the ultimate purchaser for the tax paid on qualified sales of buses before September 5, 1979.

House bill	Senate provision
The business expense test is modified to require a lending or finance company to have qualifying business expenses equal to 15 percent of the first $500,000 of ordinary income from the lending or finance business, plus 5 percent of such ordinary gross income in excess of $500,000. Thus, 5 percent of ordinary gross income in excess of $1 million will be added to the qualifying business expense test of present law. The 60-month loan maturity limitation is increased to 144 months, and the definition of a lending or finance business is amended to include the business of making loans in indefinite maturity credit transactions. *Effective date.*—The provision which increases the loan maturity limitation to 144 months and permits indefinite maturity transactions applies to taxable years beginning after December 31, 1980. The provision which modifies the business expense test applies to taxable years beginning after December 31, 1981. *Revenue effect.*—It is estimated that this provision will reduce budget receipts by less than $5 million annually.	No provision in H.R. 4961, but an identical provision was included in H.R. 4717 as passed by the Senate.
Under the House bill, the date before which the ultimate purchasers must have been reimbursed is extended from September 5, 1979, to January 1, 1983. In addition, the bill permits manufacturers, etc., to make reimbursement at the same time they receive the refund from the Treasury. The provision does not, however, change the requirement of present law that a manufacturer, etc., must have filed a claim for credit or refund with the Treasury before September 5, 1979. *Effective date.*—The provision is effective on the date of enactment. *Revenue effect.*—The provision will reduce fiscal year receipts by less than $1 million for the period 1983–1985.	No provision in H.R. 4961, but an identical provision was included in H.R. 4717 as passed by the Senate.

Item	Present law
4. Modification of rules as to acceleration of accrual of taxes	Under the accrual method of accounting, an expense generally is deductible for the taxable year in which all the events which determine the fact of the liability have occurred and the amount of the deduction can be determined with reasonable accuracy. However, present law also provides that, if a taxing jurisdiction changes the date for imposing a deductible tax so that the tax would be deductible for an earlier period under the general rule, an accrual-basis taxpayer may not deduct the tax in the earlier period. Instead, the taxpayer may deduct the tax for the period that the tax otherwise would have been deductible as if the taxing jurisdiction had not accelerated the date for imposing the tax.

House bill	
Under the House bill, an accrual-basis taxpayer may accrue a deduction for taxes on the liability date of the tax, even if that date has been accelerated by the taxing jurisdiction. However, the taxpayer is not allowed to take two deductions for taxes for a taxable year, and must account for the disallowed deduction by establishing a suspense account (which preserves the deduction until the level of tax is reduced or the taxpayer terminates its existence). *Effective date.*—The provision applies to changes in tax liability dates that occur after the date of enactment. However, in the case of a State franchise tax based on income the assessment date of which has been changed, a taxpayer which first accrued such tax after the date of the change and which has consistently accrued the deduction for the tax on the new liability date could continue to accrue the deduction on the date used, without complying with the suspense account requirements under the provision. *Revenue effect.*—The provision will affect fiscal year budget receipts in millions of dollars by: 1983 ..... $-165 1984 ..... $-124 1985 ..... $-136 Sum of 1983-85 ..... $-425	

III. PROVISIONS IN THE SENATE AMENDMENT

A. Individual Income Tax Provisions

Item	Present law
5. Individual minimum tax	
a. Add-on minimum tax	*a.* A 15-percent tax is imposed on the sum of six tax preferences in excess of the greater of one-half the regular income tax paid or $10,000. The tax preference items included in the minimum tax base are: (1) Accelerated depreciation on real property in excess of straight-line depreciation over the useful life or recovery period; (2) Accelerated depreciation on personal property subject to a lease; (3) Amortization of certified pollution control facilities (the excess of 60-month amortization over depreciation otherwise allowable); (4) Percentage depletion in excess of the adjusted basis of the property; (5) Amortization of child care facilities (the excess of 60-month amortization over depreciation otherwise allowable); (6) Intangible drilling costs on oil, gas and geothermal wells in excess of the amount amortizable with respect to these costs, and in excess of net income from production.
b. Alternative minimum tax in general	*b.* Individuals are subject to an alternative minimum tax, payable to the extent it exceeds regular tax.
c. Alternative minimum tax base	*c. Tax base.*—Taxable income increased by: (1) the deduction for long-term capital gain, and (2) itemized deductions (other than for medical expenses, casualty losses and taxes) to the extent that the total amount exceeds 60 percent of adjusted gross income reduced by these 3 excluded deductions.

Senate provision

a. This add-on minimum tax is repealed for individuals.

b. Same as present law.

c. Tax base.—Adjusted gross income plus specified preferences, minus specified itemized deductions. The specified preferences include:

(1) the 6 preferences presently included under the add-on minimum tax

(2) the deduction for long-term capital gains,

(3) interest and dividend income excluded under the $100 dividend exclusion, the All-Savers exclusion, and the 15-percent net interest exclusion (which takes effect after 1984), and

(4) the excess of expensing over 120-month amortization for mining exploration and development costs, research and development costs, and magazine circulation expenditures.

Deductions are allowed for the following to the extent not deductible in arriving at adjusted gross income:

(1) Charitable contributions

(2) medical expenses (in excess of 10 percent of adjusted gross income)

(3) casualty losses (in excess of 10 percent of adjusted gross income)

(4) personal housing interest

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Item	Present law
5. Individual minimum tax (Cont.)	
d. Alternative minimum tax rates	*d. Tax rates.*—The minimum tax base is subject to the following rates: *Percent* $0 to $20,000 ..... 0 $20,000 to $60,000 ..... 10 Over $60,000 ..... 20 For estates, trusts, and married individuals filing separate returns the dollar amounts defining the tax brackets are one-half the above amounts.
e. Alternative minimum tax credits	*e. Credits.*—The foreign tax credit is allowed, and credits attributable to an active trade or business are allowed to the extent that tax is not attributable to net capital gains or to itemized deductions included in the minimum tax base.
f. Election for treatment of intangible drilling costs	*f.* Individuals may elect to expense all intangible drilling costs for oil, gas and geothermal properties. The amount expensed in excess of the amount which would be allowed if these costs were amortized, and in excess of net income from production, is an item of tax preference.

Senate provision

(5) other interest to the extent of net investment income.
(6) Estate tax deduction.

The net operating loss deduction is generally reduced by items of tax preference.

d. Tax rates.—The minimum tax base is subject to the following rates:

Single returns	*Percent*
$0 to $30,000	0
$30,000 to $50,000	10
Over $50,000	20

Married couples filing joint returns	*Percent*
$0 to $40,000	0
$40,000 to $60,000	10
Over $60,000	20

For estates, trusts, and married individuals filing separate returns, the dollar amounts defining the tax brackets are one-half the amounts applicable to married couples filing joint returns.

e. Credits.—The foreign tax credit is allowed. Other non-refundable credits are not allowed.

f. Individuals may elect to capitalize a portion of their intangible drilling costs, except with respect to interests in which they are limited partners. These capitalized costs are treated as 5-year ACRS property, and allowed a 10-percent investment credit. They are not eligible for safe-harbor leasing. They are not treated as an item of tax preference.

Effective date.—Generally applies to taxable years beginning after December 31, 1982.

Pre-1983 net operating loss preferences continue to be subject to the add-on tax when used, as under present law.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	(1)
1984	+$224
1985	+$255
Sum of 1983-85	+$479

[1] Negligible.

Item	Present law
6. Deductions for medical expenses	Individuals who itemize deductions may deduct two categories of medical expenses: *a.* up to $150 for one-half of health insurance premiums. *b.* all other unreimbursed medical expenditures, including health insurance premiums not allowed in the first category, to the extent that these expenses exceed 3 percent of adjusted gross income. Drug expenditures may be included only to the extent the total of drug expenditures exceeds 1 percent of adjusted gross income.
7. Deduction for casualty losses	Individuals who itemize deductions may deduct unreimbursed losses of nonbusiness property resulting from fire, storm, shipwreck, or other casualty, or from theft. The amount of the loss is the lower of (1) the fair market value of the property immediately before the casualty, reduced by the fair market value of the property immediately after the casualty (zero in the case of a theft) or (2) the property's adjusted basis. For any one casualty, the deduction is allowed only to the extent that the amount of the loss exceeds $100.
8. Capital gains holding period	Gains or losses on certain assets held more than 12 months are considered long-term capital gains. For noncorporate taxpayers, 40 percent of net long-term capital gains are included in income, while 100 percent of net short-term gains are included. However, 100 percent of net short-term losses (up to $3,000) are deductible, while only 50 percent of net long-term losses (up to $3,000) are deductible. For corporate taxpayers, net long-term gains are subject to an alternative tax rate of 28 percent, while net short-term gains are taxed at ordinary corporate rates.

Senate provision	
The medical expense deduction is modified as follows: *a.* the $150 ceiling on the deduction for one-half of health insurance premiums is reduced to $100. *b.* the floor for deductible medical expenses is raised from 3 percent to 7 percent of adjusted gross income. ***Effective date.***—Taxable years beginning after December 31, 1982. ***Revenue effect.***—The provision will affect fiscal year receipts in million of dollars by: 1983 ..... +$298 1984 ..... +$2,012 1985 ..... +$2,174 Sum of 1983-85 ..... +$4,484	
Nonbusiness casualty losses are deductible only to the extent total losses sustained during the year exceed 10 percent of adjusted gross income. As under present law, each casualty loss will be deductible only to the extent it exceeds $100. ***Effective date.***—Taxable years beginning after December 31, 1982. ***Revenue effect.***—The provision will affect fiscal year receipts in million of dollars by: 1983 ..... +$0 1984 ..... +$666 1985 ..... +$734 Sum of 1983-85 ..... +$1,400	
The holding period distinguishing long-term from short-term capital gains and losses is reduced to 6 months. ***Effective date.***—This change applies to gains and losses on assets sold or exchanged after June 30, 1982. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983..... −$102 1984..... −$219 1985..... −$234 Sum of 1983-85..... −$555	

Item	Present law
9. Capital gains indexing	The adjusted basis for determining the gain or loss from the sale or other disposition of property is established in fixed dollar amounts and, thus, does not take into account changes in the value of the dollar resulting from inflation.

Senate provision

The basis of certain assets is adjusted for inflation in order to determine the gain or loss upon the sale or other disposition of the assets.

Assets eligible for the indexing adjustments are corporate stock and real property that are capital assets or assets used in a trade or business and are held for more than one year.

Assets are not eligible for the indexing adjustment for any period during which the taxpayer (or the taxpayer's spouse) sells short property substantially identical to the asset.

The inflation adjustment is based on the level of the GNP deflator for the quarter the asset is purchased compared with the deflator for the quarter of sale. However, if the asset was purchased before 1985, the base is the GNP deflator in the fourth quarter of 1984.

Special rules are provided for certain conduit entitites to insure that an appropriate portion of the inflation adjustments flow through to shareholders or partners.

(Floor amendment by Senator Armstrong, adopted by a vote of 64-32.)

Effective date.—Applies to sales and exchanges after December 31, 1984.

Revenue effect.—The provision will reduce fiscal year receipts by a negligible amount in 1985.

B. Business Tax Provisions

Item	Present law
10. Corporate tax preferences	A 15-percent tax is imposed on the sum of tax preferences in excess of the greater of regular income taxes paid or $10,000. *Tax preferences are:* (1) Excess of accelerated over straight-line real property depreciation; (2) Excess amortization of certified pollution control facilities; (3) Excess bad debt deductions of financial institutions over deductions based on actual experience; (4) Percentage depletion in excess of basis; (5) 18/46ths of net long-term capital gain; (6) Excess amortization of child care facilities.

Senate provision
The Senate provision generally reduces certain corporate tax preferences by 15 percent. Retains add-on minimum tax with modification. ***Preferences cut back are:*** (1) Depletion for coal and iron ore—reduce statutory percentage depletion rates by 15 percent. (2) Bad debt reserves—reduce bad debt deduction in excess of actual experience by 15 percent. (3) Tax-exempt interest—reduce interest deduction by financial institutions on debt used to carry tax-exempt obligations acquired after 1982 by 15 percent; interest expense prorated among all corporate assets. (4) DISC—reduce DISC deferral of corporate shareholders by 15 percent. (5) Section 1250 recapture—reduce amount of depreciation not recaptured as ordinary income by 15 percent relative to amount recaptured under sec. 1245 rules. (6) Pollution control facilities—reduce amount subject to 5-year amortization by 15 percent. Recapture rules described in (5) do not apply. (7) Intangible drilling costs— (a) Integrated oil producers deduction for intangible drilling costs reduced by 15 percent. (b) 5-year ACRS deductions allowed for capitalized expenses. (c) 10-percent investment tax credit allowed for capitalized expenses. (d) Integrated producers may make annual election to increase percent of drilling costs subject to new capitalization rules. (e) Not eligible for "safe-harbor" leasing. (8) Mineral exploration and development costs— (a) Deduction for mineral exploration and development costs reduced by 15 percent. (b) 5-year ACRS deduction allowed for capitalized expenses. (c) 10-percent investment tax credit allowed for capitalized expenses. (d) Not eligible for "safe-harbor" leasing.

Item	Present law
10. Corporate tax preferences (Cont.)	
11. Basis adjustment for investment tax credits	Cost recovery deductions are allowed for 100 percent of the cost of a depreciable asset, including property for which the regular, energy, or historic structure rehabilitation investment tax credits are allowed. Basis is reduced by the full amount of rehabilitation credits other than for qualified rehabilitation of historic structures. Lessors may elect to pass through investment credits to lessees.

Senate provision	
Interaction with minimum tax.—Only 71.6 percent of preferences subject to cutback included in minimum tax base. ***Effective date.***— (a) Generally, taxable years beginning after 1982. (b) *Iron and coal depletion*—taxable years beginning after 1983. (Under a floor amendment by Senator Spector, approved by voice vote, the effective date was delayed one year.) (c) *Pollution control facilities*—facilities placed in service after 1982. (d) *Section 1250 recapture*—dispositions made after 1982. (e) *Drilling, mineral and development costs*—expenditures made after 1982. ***Revenue effect.***—The provisions will affect fiscal year receipts in millions of dollars by: 1983 ..... +$461 1984 ..... +$792 1985 ..... +$779 Sum of 1983–85 ..... +$2,032	
Reduces basis of assets by 50 percent of the amount of regular, energy and certified historic structure investment tax credits. Deduction allowed for one-half of unused credits in year in which they expire. When lessor elects to pass through credit to lessee, lessor takes basis adjustment. The basis adjustment is not taken into account in determining earnings and profits. ***Effective date.***—Applies to property placed in service after December 31, 1982, other than property (which is not public utility property or a rehabilitated building) placed in service before July 1, 1984, for which a contract was entered into after August 13, 1981, and was binding on July 1, 1982, and at all times thereafter. For property placed in service after 1982 which is not covered by the transition rule, qualified progress expenditures and expenditures for property constructed by the taxpayer incurred before 1983 are not subject to the new rules. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... +$349 1984 ..... +$1,365 1985 ..... +$2,735 Sum of 1983–85 ..... +$4,449	

Item	Present law
12. Limitation on investment tax credit	Taxpayers may use the regular and rehabilitation investment tax credits to apply against the first $25,000 of tax liability, plus 90 percent of tax liability in excess of $25,000.
13. Accelerated depreciation	Cost recovery schedules for equipment reflect the 150-percent declining balance method with a switch to the straight-line method, for the years 1981-84. In 1985, the schedules accelerate to reflect the 175-percent declining balance method with a switch to the sum-of-the-years-digits method. In 1986, they accelerate further to reflect the 200-percent declining balance method with a switch to the sum-of-the-years-digits method.

Senate provision	
Reduces the 90-percent limitation to 85 percent. ***Effective date.***—Effective for taxable years beginning after December 31, 1982. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... +$152 1984 ..... +$259 1985 ..... +$213 Sum of 1983–85 ..... +$624	
Repeals the 1985 and 1986 accelerations of depreciation. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... $0 1984 ..... $0 1985 ..... +$1,541 Sum of 1983–85 ..... $1,541	

Item	Present law
14. Construction period interest and taxes	Individuals, personal holding companies, and subchapter S corporations must capitalize and amortize interest and taxes attributable to the construction period of all real property other than low-income housing. Corporations other than personal holding companies and subchapter S corporations generally are allowed a current deduction for construction period interest and taxes.

Senate provision	
The Senate provision requires capitalization and amortization of interest and taxes attributable to the construction period of nonresidential real property for all corporations (other that personal holding companies and subchapter S corporations, which continue to be subject to present law requirement). Senate provision does not apply to the Alaska Natural Gas Pipeline. (Floor amendment by Senator Stevens, adopted by a vote of 80–16.) *Effective date.*—Generally applies to interest and taxes paid or incurred in taxable years beginning after December 31, 1982, for construction begun after December 31, 1982. Senate bill does not apply to certain hotels and motels the construction of which begins before January 1, 1984, for which approval had been sought on or before July 1, 1982. (Floor amendment by Senator Hatch, adopted by voice vote.) *Revenue effect.*—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... +$562 1984 ..... +$1,202 1985 ..... +$1,229 Sum of 1983–85 ..... +$2,993	

Item	Present law
15. Pre-ERTA lease rules	
a. Guidelines for leveraged leases of equipment (Revenue Procedure 75-21)	a. Revenue Procedure 75-21 and subsequent revenue procedures provide the following objective guidelines for determining whether an advance ruling will be issued providing pre-ERTA lease treatment of leveraged leases of equipment. These guidelines may be viewed as a type of safe harbor because if all requirements are met, a ruling generally will be issued treating the agreement as a lease.
(i) Lessor minimum investment	The lessor must have a minimum 20 percent unconditional at-risk investment in the property.
(ii) Lessee investment	Neither the lessee nor a party related to the lessee may furnish any part of the cost of the property.
(iii) Lessee loans or guarantees	The lessee may not lend to the lessor any of the funds necessary to purchase the property or guarantee any lessor loan.
(iv) Purchase options	The lessee may not have an option to purchase the property at the end of the lease term unless the option can be exercised only at fair market value (determined at the time of exercise). In addition, the lessor cannot have a contractual right to require the lessee or any other party to purchase the property, even at fair market value (i.e., a put).

Senate provision	
a.(i) Same as present law.	
a.(ii) Same as present law.	
a.(iii) Same as present law.	
a.(iv) For leases entered into after December 31, 1984, fixed price purchase options are not to be taken into account in determining whether a transaction is a lease under the pre-ERTA rules. To qualify, the option must be at least 10 percent of the original cost of the property. As under present law, the fact the lessor has a contractual right requiring the lessee to purchase the property (i.e., a put option) in a leveraged lease must be taken into account in determining whether a transaction is a lease under pre-ERTA rules.	

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Item	Present law
15. Pre-ERTA lease rules (Cont.)	
a. Guidelines (Cont.)	
(v) Lessor profit and cash flow	The lessor must expect to receive a profit and positive cash flow from the transaction independent of tax benefits. He must have a business purpose. However, there is no requirement that the lessor show that he would have entered into the transaction in the absence of tax benefits.
(vi) Limited use property	Under Revenue Procedure 76-30, property that can be used only by the lessee (limited use property) is not eligible for lease treatment.
b. Motor vehicle leases	One court (*Swift Dodge* v. *Commissioner*, 76 T.C. 547 (1981)) has held that, in a nonleveraged lease of motor vehicles, lease treatment may result even though the lease contains a terminal rental adjustment clause requiring or permitting an adjustment of rent to make up any difference between the projected value of the property at the end of the lease and the actual value of the property upon lease termination.

Senate provision
a.(v) Same as present law.
a.(vi) Same as present law.
b. The Senate provision prevents the IRS from retroactively denying lease treatment for certain motor vehicle leases, including leases of trailers, by reason of the fact that those leases contain terminal rental adjustment clauses. The provision does not address the legal effect of these clauses and does not prevent the Treasury from issuing regulations on a prospective basis addressing the legal effect of these clauses. The Senate provision regarding terminal rental adjustment clauses applies only to leases in which the lessee uses the property for business purposes. Also, the provision does not apply to leveraged leases financed with nonrecourse debt. *Effective date.—* ***General rule.*** The provision relating to fixed price purchase options generally applies to leases entered into after December 31, 1984. However, this provision applies to leases entered into after July 1, 1982, for up to $150,000 of a lessee's farm implements per calendar year. ***Motor vehicle leases.*** The provision relating to motor vehicle leases applies to any open taxable year.

Item	Present law
16. Safe-harbor lease rules	
a. Eligibility requirements	
(i) Lessor minimum investment.	The lessor must have a minimum at-risk investment in the property at all times during the lease term of at least 10 percent of the adjusted basis of the property.
(ii) Maximum lease term.	90 percent of useful life or 150 percent of ADR midpoint life, whichever is greater.
(iii) Maximum interest rate on lessee obligations.	Under Treasury regulations, the rate may not exceed by more than 3 percentage points the rate on tax overpayments and underpayments, the prime rate, or an arm's-length rate determined under section 482.
b. Eligible property	
(i) General rule.	Property must be "qualified leased property," which, in general, means that the property must be new equipment eligible for both ACRS and the investment credit.
(ii) Property used by tax-exempt organizations.	Property (other than mass commuting vehicles) used by a tax-exempt organization or a U.S. Federal, State, or local government unit generally is ineligible.
(iii) Mass commuting vehicles.	Qualified lease property includes mass commuting vehicles (which mean any bus, subway car, rail car or similar equipment that is leased to a governmentally owned mass transit system and used in providing mass commuting services) that are financed in whole or in part by tax-exempt bonds.

Senate provision	
a.(i) Same as present law.	
a.(ii) 100 percent of ADR midpoint life (generally 9 years for property without an ADR midpoint life).	
a.(iii) 5 percentage points below the interest rate on overpayments and underpayments of tax, but not less than 8 percent.	
b.(i) Same as present law, except that public utility property does not qualify.	
b.(ii) Qualified leased property will not include property (other than mass commuting vehicles) leased to a person that was a tax-exempt organization at any time within the 5-year period preceding the date of the lease agreement. This rule also applies where a predecessor of the lessee, within the 5-year period prior to the date the lease is entered into, was a tax-exempt organization and was engaged in activities substantially similar to the activities in which the lessee is engaged.	
b. (iii) Same as present law. (Under a floor amendment by Sen. Gorton, adopted by voice vote, ferries are explicitly designated as mass commuting vehicles.)	

Item	Present law
16. Safe-harbor lease rules (Cont.)	
c. ACRS deductions	
(i) Recovery period	Taxpayer may elect the regular ACRS recovery period of 3 years for 3-year property, 5 years for 5-year property and 10 years for 10-year property.
(ii) Recovery method	Taxpayer may elect accelerated percentages approximating use of the 150-percent declining balance method in early recovery years and the straight-line method in subsequent recovery years.
d. Investment tax credit	100 percent of any investment tax credit is allowable when property is placed in service.
e. Lessee limitations	
(i) Cap on eligible property	The lessee may lease all of its qualified property under the safe-harbor rules.
(ii) Percentage depletion	No provision.

Senate provisions

c. (i) Recovery periods are 5 years for 3-year property, 8 years for 5-year property and 15 years for 10-year property.

c. (ii) The recovery method is the straight-line method (with a half-year convention).

d. Any investment tax credit earned on leased property is allowable over 3 years—50 percent the first year and 25 percent in each of the next 2 years. However, the half-basis adjustment takes effect the first year.

e. (i) The lessee may apply the safe-harbor rules with respect to no more than the following percentages of the lessee's property:

Year	*Percent*
1982	45
1983	45
1984	40
1985	40

Qualified leased property not subject to this provision by virtue of the general effective date or transitional rules counts toward the lessee cap in 1982, but the rule does not operate to deny safe-harbor lease treatment for that property.

For this purpose, the lessee's property includes (1) the cost basis of all qualified leased property leased by the lessee under a lease for which a safe-harbor election has been made, (2) all other new section 38 property of the lessee that is placed in service during the taxable year, and (3) new property eligible for the investment credit that is used by the lessee under a long-term (more than 50 percent of the ADR midpoint of the property) agreement qualifying as a lease under pre-ERTA rules.

e. (ii) The lessee must compute its 50-percent and 65-percent taxable income limitations on percentage depletion deductions as if it were the owner of the leased property. For this purpose, the lessee must take into account ACRS deductions for the property and must disregard lease rentals and interest on lessee financing. In computing the imputed ACRS deductions for the property, the lessee must use the recovery period and method applicable to the lessor under the new safe-harbor rules.

Item	Present law
16. Safe-harbor lease rules (Cont.)	
e. Lessee limitations (Cont.)	
(iii) Foreign tax credit	No provision.
f. Lessor limitations	
(i) Current tax liability	No provision.
(ii) Carrybacks	No provision.
g. Related party transactions	The Treasury regulations governing the safe harbor rules reserved on whether transactions between related parties qualify for safe-harbor treatment.
h. ITC strip.	The Treasury regulations reserved on whether safe-harbor lease treatment is allowed for transactions referred to as lease-leasebacks or ITC strips (intended to permit the lessee to transfer only the investment credit).
i. Closely-held lessors.	The at-risk limitations on losses (sec. 465) and credits (sec. 46(c)(8)) apply where a closely-held corporation is either a lessor or lessee. In general, to be at-risk, the taxpayer must use cash or recourse debt to finance the property.

Senate provision	
e. (iii) The lessee must compute its foreign tax credit as if the lessee were the owner of the property. Thus, it must take into account ACRS deductions (and disregard rentals and interest on lessee financing) computed using the periods and methods applicable to the lessor.	
f. (i) In taxable years ending after July 1, 1982, a lessor cannot reduce its income tax liability (including any liability under the add-on minimum tax) by more than 50 percent through the use of safe-harbor leasing. Deductions or credits from safe-harbor leases not allowable by operation of this rule may be carried forward under regulations to be prescribed by the Secretary. No deferral of tax benefits is required with respect to deductions or credits arising from safe-harbor leases not covered by the Senate provisions, but such deductions or credits count first in determining whether the 50-percent limitation applies to safe-harbor leases covered by the Senate provisions.	
f. (ii) The lessor cannot use tax benefits obtained as a safe-harbor lessor to generate a net operating loss carryback or investment tax credit carryback to a prior taxable year.	
g. Prevents the lessee from entering into a safe-harbor lease with a related person. For this purpose, persons are related if they are part of an affiliated group as defined in section 1504, even if the persons are not "includible corporations" (as defined in section 1504(b)) and even though the group does not file a consolidated return.	
h. Allows safe-harbor lease treatment for transactions referred to as lease-leasebacks or ITC strips entered into before October 20, 1981, which is the date Treasury issued its temporary regulations dealing with the safe-harbor provisions.	(An identical provision has been ordered reported by the Ways and Means Committee as part of H.R. 6056, the Technical Corrections Act of 1982.)
i. (Under a floor amendment by Senators Dixon and Nunn, adopted by voice vote, the at-risk limitations on losses and credits do not apply to closely-held lessors (other than personal service companies), but those rules will continue to apply where the lessee is a closely-held corporation.)	

Item	Present law
16. Safe-harbor lease rules (Cont.)	

Senate provision	
Effective dates— ***General rule.***—Leases entered into or property placed in service after July 1, 1982, except the limitation on lessees relating to percentage depletion and the limitation on related party transactions apply to leases entered into after February 19, 1982. ***Transition rule.***—The Senate provision does not apply if (1) the property is placed in service before July 1, 1983, and (2) after June 25, 1981 (the date H.J. Res. 266, which contained the safe-harbor leasing provisions, was ordered to be reported by the Senate Finance Committee) and before February 20, 1982, the lessee either (a) acquired the property or commenced construction of the property or (b) entered into a binding contract for the purchase of the property. (Under a floor amendment by Senator Gorton, adopted by voice vote, aircraft qualify under the transitional rule if the property is placed in service before January 1, 1984, and construction of a subassembly commenced or the stub wing joiner occurred between June 25, 1981, and February 20, 1982.) (Under a floor amendment by Senator Glenn, adopted by a vote of 57 to 40, the Senate provision does not apply to certain automobile manufacturing property placed in service before July 1, 1982, and leased before August 15, 1982.) (Under a floor amendment by Senator Cohen, adopted by voice vote, the June 25, 1981, date in the transitional rule is moved back to March 31, 1981, for paper production plants.) ***Mass commuting vehicles.***—The Senate provisions which modify the safe-harbor rules generally do not apply to mass commuting vehicles placed in service before January 1, 1988, pursuant to a binding contract or commitment entered into before April 1, 1983. ***Repeal of safe-harbor leasing.***—Safe-harbor leasing is repealed for property (other than mass commuting vehicles eligible under the special rule above) placed in service after September 30, 1985. ***Revenue effect.***—The leasing related provisions will affect fiscal year receipts in millions of dollars by: 1983 ..... +$1,409 1984 ..... +$2,732 1985 ..... +$4,007 Sum of 1983-85 ..... +$8,148	

Item	Present law
17. Foreign oil and gas	
a. Limitation on amount of foreign oil and gas extraction taxes allowed as foreign tax credits	Amount of foreign oil and gas extraction taxes that may be credited is limited to an amount based on the U.S. corporate tax rate. However, to determine the credit, extraction losses from one country do not offset extraction income from other countries. The foreign tax credit limitation is computed separately for oil related income and all other foreign income.
b. Current taxation of foreign oil and gas non-extraction income	Income of foreign corporations is not subject to U.S. tax when earned. U.S. shareholders of a foreign corporation may be taxed on the income of the foreign corporation from tax haven and tax avoidance transactions.

Senate provision

a. Changes extraction loss rule so that a net extraction loss from one country offsets extraction income from other countries for purposes of computing the amount of creditable oil and gas extraction taxes. Separate oil related income limitation is repealed, but credits are disallowed if foreign countries impose abnormally higher taxes on oil than on other activities. Also, provides transitional rules dealing with carrybacks and carryforwards of credits.

b. U.S. shareholders of foreign corporations would be subject to tax currently on the foreign oil and gas nonextraction income of the foreign corporations from countries other than those in which the oil and gas is extracted or consumed.

Foreign oil nonextraction income includes processing, transportation, distribution and sales, and services. Services are covered only if the provider is engaged in extraction. The other items are taxed currently even though neither the earner of the income nor a related party has extraction income.

Effective dates.—The provisions relating to the foreign tax credit apply to taxable years beginning after December 31, 1982.

The provisions relating to current taxation of oil and gas income of foreign subsidiary corporations apply to taxable years of foreign corporations beginning after December 31, 1982, and to taxable years of United States shareholders in which or with which such taxable years of foreign corporations end.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	+$233
1984	+$504
1985	+$581
Sum of 1983–85	+$1,318

Item	Present law
18. Possession and Virgin Islands corporations	
a. Qualification; passive income limitation	To qualify for effective tax exemption, a U.S. corporation must derive at least 50% of its gross income from the active conduct of a trade or business within a U.S. possession. Also, 80% of its gross income must be from possessions sources.
b. Income from intangibles created by a possessions corporation or acquired from an unrelated party.	Possessions corporations (sec. 936) and certain Virgin Islands corporations are, in general, effectively tax exempt. This exemption applies to income from intangibles created by such a corporation or acquired from an unrelated party
c. Income from intangibles acquired from a related party	Taxpayers allege that an intangible asset (a patent, trademark, etc.) created by a related party and transferred to a possessions corporation generates tax-free income of the possessions corporation. The IRS allocates income from such an intangible to the related party. The issue is in litigation.

Senate provision

a. The required percentage of active business income is phased up to 90% for taxable years beginning in 1985 and thereafter. The percentage for 1983 is 65%; for 1984, 80%. Failure of the qualification tests because of IRS reallocation of intangibles income to other persons may be cured by distributions of disqualifying income. These distributions do not qualify for the dividends received deduction.

b. Same as present law.

c. Income from such intangibles is generally allocated to U.S. shareholders pro rata as U.S. source income. If a shareholder is a foreign person or a tax-exempt U.S. person, the possessions corporation (or V.I. corporation) is taxable on that shareholder's pro rata amount of the income from those intangibles as U.S. source income. Income from intangibles does not include a reasonable profit (as determined by the Secretary) on direct and indirect costs.

Effective date.—Generally applies to taxable years beginning on or after January 1, 1983. Applies to a disposition on or after July 1, 1982 to a related party of an intangible asset that had been acquired from a related party.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	+$412
1984	+$1,027
1985	+$1,251
Sum of 1983-85	+$2,690

Item	Present law
19. Tax-exempt bonds	Generally, interest on State and local government obligations is exempt from Federal income tax; however, industrial development bonds (IDBs) are taxable except when issued for certain specified purposes. Interest on IDBs is tax-exempt if the bonds are issued to finance the following activities: (1) projects for low-income residential rental property, (2) sports facilities, (3) convention or trade show facilities, (4) airports, docks, wharves, mass commuting facilities, and parking facilities, (5) sewage and solid waste disposal facilities, and facilities for the local furnishing of electricity or gas, (6) air or water pollution control facilities, (7) certain facilities for the furnishing of water, (8) qualified hydroelectric generating facilities, and (9) qualified mass commuting vehicles. In addition, the interest on certain IDBs issued for the purpose of acquiring or developing land as a site for an industrial park is exempt from taxation. Present law also permits tax exemption for certain "small issue" IDBs if the proceeds are used for the acquisition of land or depreciable property. A small issue cannot exceed $1 million ($10 million if certain capital expenditures are counted). Present law also allows tax-exempt financing for student loans and organizations that qualify for tax exemption under section 501(c)(3), (such as private, nonprofit hospitals and private, nonprofit educational institutions).
a. Restrictions on tax-exempt bonds for private activities	
(i) Reporting requirement for all private activity bonds	No reporting requirement.
(ii) Restrictions on all IDBs	
(A) Public approval	No Federal procedural requirements.

Senate provision	
a.(i). Quarterly reports to the IRS are required for issuers of all tax-exempt bonds for private activities (i.e., all IDBs, student loan bonds, and bonds for sec. 501(c)(3) organizations). ***Effective date.***—This amendment is effective for bonds, including refunding issues, issued after December 31, 1982. *a.(ii)(A).* IDBs can be issued only after a public hearing and approval by the chief elected official or the governing legislative body of the issuer and each jurisdiction where the IDB-financed facility will be located. A voter referendum can be substituted for the hearing and approval requirement by any jurisdiction. ***Effective date.***—The public hearing and approval or voter referendum requirement applies to obligations, including refunding issues, issued after December 31, 1982, except bonds issued solely to refund certain short term obligations that were issued before July 1, 1982.	

Item	Present law
19. Tax-exempt bonds (Cont.)	
a. (ii) Restrictions on all IDBs (Cont.)	
(B) Restrictions on cost recovery deductions	Property financed with tax-exempt bonds is eligible for accelerated cost recovery deductions under ACRS and other applicable accelerated cost recovery provisions.
(iii) Restrictions on "small issue" IDBs	
(A) sunset of small issue exception	No sunset date.
(B) Restriction on "clean limit" small issue exception	Prior to the announcement of Rev. Rul. 81-216, small issue IDB's could be marketed as a separate IDB issue in combination with exempt activity IDB's for a single business project.

Senate provision

a.(ii)(B). Requires recovery of the cost of property financed with tax-exempt bonds using the straight-line method over the ACRS lives. (Floor amendment by Senator D'Amato, approved by a vote of 58 to 39, shortened the recovery lives from following lives provided by the Senate Finance Committee bill: 5 years for 3-year property; 8 years for 5-year property; 15 years for 10-year property; 22 years for 15-year public utility property; 15 years for 15-year residential real property; and 25 years for 15-year nonresidential real property.)

Full ACRS deductions are still allowed in the case of low-income rental housing, municipal sewage or solid waste facilities, air and water pollution control facilities, and certain facilities with respect to which a UDAG grant is made. (The floor amendment by Senator D'Amato allowed full ACRS deductions for municipal sewage facilities.)

Effective date.—The provision generally is effective for property placed in service after December 31, 1982. The provision does not apply, however, to property placed in service after that date if construction of the facility began before July 1, 1982, or a binding contract committing the purchaser to incur significant expenditures for the property existed on July 1, 1982, and at all times thereafter. Also, the provision does not apply to property placed in service after December 31, 1982, to the extent the property is financed with bonds issued before July 1, 1982.

a.(iii)(A). The Senate bill terminates the small issue exception effective for bonds issued after September 30, 1987. (Floor amendment by Senator D'Amato, adopted by vote of 58 to 39, moved the sunset date from 1985 to 1987.)

a.(iii)(B). Small issue bonds cannot be issued as part of a single issue with bonds that are exempt under any other provision.

Effective date.—The provision is effective for bonds issued after the date of enactment.

Item	Present law
19. Tax-exempt bonds (Cont.)	
a. (iii) Restrictions on "small issue" IDBs (Cont.)	
(C) Elimination of small-issue exemption for certain facilities	The small issue exemption is available for obligations issued to finance land or depreciable property for any type of business. In addition, exempt activity IDBs are available for sports facilities.

Senate provision

a.(iii)(C). Eliminates the small issue exemption for bonds if—

(i) more than 25 percent of the proceeds of the issue are used to provide a facility the primary purpose of which is automobile sales or service or the provision of recreation or entertainment; or

(ii) any portion of the proceeds of the issue is to be used to provide the following: any private or commercial golf course, country club, massage parlor, tennis club, skating facility (including roller skating, skateboard, and ice skating), racquet sports facility (including handball and racquetball courts), hot tub facility, suntan facility, or racetrack.

Effective date.—The provision is effective for obligations issued after December 31, 1982.

(Floor amendment by Senator D'Amato, approved by a vote of 58 to 39.)

Revenue effect.—The bond-related provisions, including the other amendments affecting industrial development bonds and mortgage subsidy bonds (items 19–21), will affect fiscal year receipts in millions of dollars by:

1983	+64
1984	+262
1985	+561
Sum of 1983–85	+887

Item	Present law
20. Other amendments affecting industrial development bonds	
a. Local furnishing of gas	Present law allows tax-exempt industrial development bonds to be issued to provide facilities for the local furnishing of electricity or gas. Generally, local furnishing is defined as providing service to an area consisting of no more than 2 contiguous counties. However, for electricity, local furnishing is also defined to include providing service to a city and a contiguous county.
b. Local district heating and cooling facilities	Present law does not permit exempt activity IDB financing for local district heating and cooling facilities.
c. Multiple lot industrial development bonds	Present law provides that interest on certain small issue industrial development bonds is exempt from tax. Small issue bonds are either (1) bonds of $1 million or less for facilities in a city or county used by the same or related users or (2) bonds of $10 million or less for facilities in a city or county used by the same or related users reduced by the user's capital expenditures made in the city or county over a 6-year period. In Rev. Rul. 81-216, the IRS held that lots of bonds were a single issue if the bonds were sold (1) at substantially the same time, (2) pursuant to a common plan of marketing, (3) at substantially the same interest rate, and (4) with a common or pooled security.

Senate provision	
a. The provision allows tax-exempt industrial development bonds to be issued for gas facilities whose service area consists of no more that a city and a contiguous county. ***Effective date.***—The provision is effective for bonds issued after the date of enactment.	
b. The provision allows tax-exempt industrial development bonds to be issued for local district heating and cooling facilities which are part of a local district heating and cooling system. A local district heating or cooling facility is a facility having a service area not exceeding two counties or a city and a contiguous county. ***Effective date.***—The provision is effective for bonds issued after the date of enactment.	
c. The Senate bill provides that multiple lots will be treated as part of the same issue only if the proceeds finance facilities which are either (1) located in more than one State or (2) have the same principal users or related persons. For this purpose, a principal user includes certain franchisors. ***Effective date.***—The provision is effective for bonds issued after the date of enactment.	

Item	Present law
20. Other amendments (Cont.)	
d. Exclusion of research and development expenditures from capital expenditure limitation for small issue IDB.	Present law provides that interest on certain small issue industrial development bonds is exempt from tax. Small issue bonds are either (1) bonds of $1 million or less for facilities in a county used by the same or related users or (2) bonds of $10 million or less for facilities in a county used by the same or related users reduced by certain capital expenditures made over a 6-year period. Certain research and development expenditures are treated as capital expenditures for purposes of the $10 million limitation whether or not the taxpayer elects currently to deduct such expenditures pursuant to section 174.
e. Regional pollution control authorities	Present law generally prohibits the issuance of the IDBs to acquire existing facilities if a substantial user of the facilities prior to the acquisition will be a substantial user after the acquisition.

Senate provision	
d. The provision excludes research wages and supplies (for which a credit is available under section 44F) from the capital expenditures that are to be taken into account under the $10 million limitation for small issue bonds. ***Effective date.***—The provision is effective for expenditures made after the date of enactment.	
e. The provision allows tax-exempt IDBs to be issued for use by a qualified regional pollution control authority to acquire existing air or water pollution control facilities which the authority itself will operate under certain conditions. (Floor amendment by Senator Tower, approved by voice vote.) ***Effective date.***—The provision is effective for expenditures made after the date of enactment.	

Item	Present law
21. Mortgage subsidy bonds	The Mortgage Subsidy Bond Tax Act of 1980 was enacted generally to direct the subsidy from the use of tax-exempt bonds for housing to those individuals who have the greatest need for the subsidy, to increase the efficiency of the subsidy, and to reduce the overall revenue loss to the Federal Government from the use of tax-exempt bonds for housing. The present law provisions affected by the Senate provision relate only to single family mortgage bonds.
a. Purchase price limitations	The purchase price of single family residences financed with mortgage subsidy bonds is limited to 90 percent (110 percent where the residence is located in a targeted area) of the average area purchase price.
b. First-time home-purchase limitation	All of the mortgagors receiving financing with mortgage subsidy bonds must not have owned a present interest in their principal residence within the 3 preceding years.
c. Arbitrage limitations on mortgage investments	The effective interest rate on mortgages financed with tax-exempt mortgage bonds may not exceed the yield on the issue by more than one (1.0) percentage point.
d. Loss on reserve liquidations	The dollar amount of reserves must be reduced as mortgages are paid off, since higher reserves no longer are needed to secure the repayment of debt service on the issue.

Senate provision
a. Increases the purchase price limitation to 110 percent (120 percent where the residence is located in a targeted area).
b. Provides that the first-time home-purchaser rule applies only to 80 percent of lendable proceeds of a mortgage subsidy bond.
c. The 1.0 percent limit is replaced by a limit which varies with the size of the issue, beginning at one and one-sixteenth (1 1/16) percentage points but not to exceed one and one-eighth (1 1/8) percentage points. The limitation is 1.0625 percentage points plus 0.01 percentage point (not to exceed 1.125 percentage points) for each $10 million that the aggregate face amount of the issue is less than $100 million. *d.* The rule requiring liquidation of nonmortgage investments with a yield higher than the issue yield will not apply to the extent that it would require disposition of any nonmortgage investment resulting in a loss in excess of the amount of undistributed arbitrage profits on nonmortgage investments at such time.
Effective date.—The Senate provision applies to bonds issued after the date of enactment, except that the modifications to the first-time home-purchaser limitation also apply to the uncommitted portions of bonds issued before the date of enactment.

Item	Present law
22. Mergers and acquisitions	
a. Partial liquidations	Generally, partial liquidations result in capital gain or loss to shareholders measured by the difference between the value of property plus money received over the basis of stock redeemed in the transaction. Gain or loss is not recognized to the distributing corporation for property distributed in partial liquidations except for recapture items.
b. Stock redemptions (other than partial or complete liquidations) with appreciated property.	Generally, stock redemptions results in capital gain or loss to shareholders if distribution is not pro rata. Gain is recognized to the distributing corporation with exceptions.

Senate provision	
a. Capital gain or loss treatment would be preserved for noncorporate shareholders. Generally, there would be dividend treatment with carryover basis of property distributed to corporate shareholders. Gain would be recognized to the distributing corporation for property distributions to noncorporate shareholders except that nonrecognition would be preserved for such distributions to 10 percent shareholders (applying constructive ownership rules) who have held their stock for at least 5 years. *b.* Treatment of shareholders would be the same. Certain exceptions to the rule that the distributing corporation must recognize gain would be eliminated. However, nonrecognition would continue for distributions of stock in a 50-percent owned subsidiary to noncorporate shareholders who have held at least a 10-percent interest for 5 years in the distributing corporation. This exception would apply only if, were the subsidiary's assets distributed in lieu of stock, the transaction would qualify as a partial liquidation.	

Item	Present law
22. Mergers and acquisitions (Cont.)	
c. Stock purchase treated as asset purchase	If one corporation purchases, within one year, 80 percent or more of the stock in another corporation, a liquidation of the acquired corporation is treated as a purchase of assets if a plan of liquidation is adopted within 2 years of the purchase and distributions are completed within an additional 3 years. Basis of the subsidiary's assets are stepped up to reflect the purchase price for the stock.
	If two or more affiliated corporations are purchased or assets are directly purchased along with stock from the same affiliated group, the entire transaction may be in part a purchase of assets and in part a purchase of stock with retention of asset basis and other tax attributes in the purchased subsidiary.

Senate provision

c. The purchasing corporation could elect to treat the acquired corporation as if the latter sold, generally tax-free, all its assets on the date the stock was purchased and was thereafter a new corporation that bought the assets. No actual liquidation would be required. The basis of the assets would be stepped up to reflect the purchasing corporation's cost of the stock. Under this rule, the basis of the assets would reflect 80 percent to 100 percent of the total stock of the acquired corporation, depending on the percentage acquired by the purchasing corporation.

Consistency of treatment would be required where several affiliated corporations are acquired or direct asset acquisitions and stock acquisitions are made from the same affiliated group. The transaction would be entirely treated as an asset acquisition or a stock acquisition with preservation of tax attributes in the acquired entities. This consistency requirement would extend to the acquisition of foreign corporations.

Effective dates.—For partial liquidations and stock redemptions the amendments would apply to distributions after August 31, 1982. Present law rules for partial liquidations would be continued if (1) a ruling request had been filed on July 22, 1982 (or a ruling had been granted by July 12, 1982) and a plan of partial liquidation is adopted by September 1, 1982; (2) a plan of partial liquidation was adopted before July 1, 1982; (3) control of a corporation has been acquired by July 1, 1982, a plan of liquidation is adopted by October 1, 1982, and the conduct by the distributee of the business to be distributed is awaiting approval by a State regulatory authority; (4) distributions are made under a plan of partial liquidation adopted within 90 days after the acquisition is approved by a Federal regulatory agency and control of the acquired company is completed after July 1, 1982, pursuant to a binding contract outstanding on December 31, 1980; (5) distributions are made under a plan of liquidation adopted before October 1, 1982, and control was acquired between January 1 and July 1, 1982.[1]

New rules governing the treatment of stock purchases as asset purchases apply where the acquisition is made after August 31, 1982. However, if the acquisition was made during 1982, the new rules may be elected in lieu of an actual liquidation as required by present law.

Revenue effect.—The provisions will affect fiscal year receipts in millions of dollars by:

1983	+$424
1984	+$704
1985	+$850
Sum of 1983–85	+$1,978

[1] Clause (1) was adopted by voice vote as a floor amendment sponsored by Senators Cochran and Percy. Clauses (2), (3), (4), and (5) were adopted by division as a floor amendment sponsored by Senators Danforth and Percy.

Item	Present law
23. Accounting for long-term contracts	
a. Long-term contract defined	Generally, a long-term contract is a construction, building, installation, or manufacturing contract not completed in the taxable year entered into. For manufacturing contracts, manufactured item must be "unique" or must require at least 12 months to complete.
b. Methods permitted for long-term contracts	Cash, accrual (with inventories where required), percentage of completion, or completed contract.
c. Completed contract method	
(i) Allocation of costs to long-term contracts.	Contract costs (which are deducted when contract is completed) are direct labor and material costs and other costs incident to and necessary for the performance of long-term contracts. All other costs (called "period costs") are deductible currently.
	Period costs include the following: (1) Marketing and selling expenses including bidding expenses; (2) Advertising expenses; (3) Other distribution expenses; (4) General and administrative expenses which benefit the taxpayer's business as a whole; (5) Interest; (6) Research and development expenses; (7) Losses; (8) Percentage depletion in excess of cost depletion; (9) Depreciation on idle equipment and, for other equipment, tax depreciation in excess of book depreciation; (10) Income taxes; (11) Pension and profit-sharing contributions and other employee benefits; (12) Costs attributable to strikes, rework, scrap, and spoilage; and (13) Officer compensation which benefits the taxpayer's activities as a whole.

Senate provision	
a. Same as present law.	
b. Generally the same as present law. However, the completed contract method is modified as described in (c) below. The accrual method and inventory costing rules for long-term contracts would also be modified to conform to the revised completed contract rules.	
c. For long-term contracts expected to be completed within 2 years and certain other construction contracts, present law cost allocation rules continue to apply. Construction contracts eligible for continued use of present law costing rules are contracts for the construction of real property improvements (or installation of integral components thereof) if either— (1) the contract is expected to be completed within 3 years, or (2) the taxpayer has average annual gross receipts of $25 million or less for the prior 3 years. For all other contracts (extended period long-term contracts), costs that arise from or directly benefit such contract activities of the taxpayer are treated as contract costs. For extended period long-term contracts the following costs will *no longer* be period costs: (1) Bidding expenses on contracts awarded to the taxpayer; (2) Distribution expenses, such as shipping costs; (3) General and administrative expenses properly allocable to long-term contracts under regulations to be prescribed by the Secretary; (4) Research and development expenses that either are directly attributable to particular long-term contracts existing when the expenses are incurred or are incurred under an agreement to perform research and development; (5) Depreciation, capital cost recovery, and amortization for equipment and facilities currently being used, to the extent it exceeds depreciation reported by the taxpayer for financial accounting purposes; (6) Pension and profit-sharing contributions representing current service costs and other employee benefits; (7) Rework labor, scrap, and spoilage; and (8) Percentage depletion in excess of cost depletion.	

Item	Present law
23. Accounting for long-term contracts (Cont.) ***c. Completed contract (Cont.)*** (i) Cont.	
(ii) Termination of contracts	Contracts are completed when finally completed and accepted.
(iii) Severance and aggregation of contracts	Agreements may be aggregated or severed in order to insure clear reflection of income.

Senate provision

Effective date.—The revised cost allocation rules apply to contracts entered into after December 31, 1982, for taxable years beginning after December 31, 1982, with a phase-in..

Under the phase-in, a percentage of the additional costs allocable to the contract under the revised rules would be currently deductible. The percentages are:

For taxable year beginning in—	*The currently deductible percentage is—*
1983	66⅔
1984	33⅓
1985 and thereafter	0

c.(ii) Treasury will amend regulations to prevent unreasonable deferral of recognition of income by reason of contract obligations that are not long-term contract obligations for construction, installation, or manufacturing.

Effective date.—The revised termination rules apply to taxable years ending after December 31, 1982. Contracts that would be treated as completed in an earlier taxable year solely by reason of revised termination rule will be treated as completed in first taxable year ending after December 31, 1982.

c.(iii) Treasury will amend regulations to prevent unreasonable deferral of recognition of income by reason of the taxpayer's treating several contracts as a single contract (for example, where the contracts are independently priced and will be separately delivered or accepted).

Effective date.—The revised severance and aggregation rules apply to taxable years ending after December 31, 1982. "Component" contracts (one of a group of contracts treated as a single contract under the taxpayer's method of accounting) that would be considered completed in a prior taxable year solely by reason of revised segregation and aggregation rules will be treated as completed when the next "component" contract of the same group is completed.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	+$882
1984	+$2,235
1985	+$2,535
Sum of 1983–85	+$5,652

Item	Present law
24. Accelerated corporate tax payments	
a. Amount of payments	Corporations generally must pay 80% of their current year's tax liability in quarterly estimated tax payments during the taxable year.
b. Penalty	A penalty for underpayment of estimated taxes is imposed unless the corporation meets certain exceptions based on prior year's tax liability, prior year's income or annualized income.
c. Final tax payment	Generally, a corporation must pay its final tax payment 2½ months after the end of the taxable year but may elect to pay only half of the unpaid tax on this date and the remaining half three months later.

Senate provision	
a. The amount of estimated tax payments required for all corporations is increased from 80% to 90% of current year's tax liability. A corresponding change would be made in the exception based on annualized income. *b.* The penalty on underpayments of estimated tax that are between 80% and 90% of the actual tax due is imposed at one-half the full rate for underpayments. *c.* The full amount of the unpaid tax is due 2½ months after the end of a taxable year. ***Effective date.***—Taxable years beginning after December 31, 1982. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... +$798 1984 ..... +$3,002 1985 ..... +$768 Sum of 1983–85 ..... +$4,568	

Item	Present law
25. Amortization of original issue discount	Original issue discount on corporate bonds is included in income and is allowed as a deduction on a linear basis over the life of the bond.
26. Tax treatment of stripped bonds	If a taxpayer disposes of a bond and retains the unmatured interest coupons or disposes of the bond and the coupons in separate transactions, it is arguable that the taxpayer's basis is entirely allocable to the corpus (bond principal). Any loss from disposing of the corpus, if allowable, is an ordinary loss to a dealer in such obligations, or to a bank, and a capital loss to other taxpayers. Gain to the purchaser of a stripped bond is deferred until the bond is sold or redeemed and is ordinary income to the extent of the difference between the value of the bond with and without the coupons attached at the time of purchase. The purchaser of stripped coupons allocates his cost to the coupons in accordance with their relative values at the time of purchase. Capital gain may result if coupons are sold rather than redeemed.

Senate provision	
Provides accrual rule for determining inclusion and deduction of original issue discount which corresponds to actual accrual of interest. Extends treatment to bonds issued by noncorporate issuers other than natural persons *Effective date.*—(a) New accrual rules apply to obligations issued after May 3, 1982 (other than obligations pursuant to a written binding contract entered into on or before that date). (b) Extension to other persons applies to obligations issued after June 9, 1982 (other than obligations issued pursuant to a written binding contract entered into on or before that date).	
The seller of a stripped bond or stripped coupons must, immediately before the disposition, allocate the basis of the bond (with coupons) among the bond and coupons in accordance with their values. This will prevent artificial losses from the sale of stripped bonds. The same original issue discount treatment applicable to a buyer of a stripped bond or stripped coupons applies to the retained portions after a seller strips and disposes of either the corpus or coupons (see below). Stripped bonds and stripped coupons in the hands of a purchaser are treated as bonds issued at a discount. The discount is the excess of the redemption price of the bond, or amount payable on maturity of the coupon, over the purchase price allocable to the bond or coupon. The purchaser must include the discount in income under the new original issue discount rules. *Effective date.*—The treatment of stripped bonds applies with respect to the purchase and sale of a stripped bond or stripped coupons after June 9, 1982. *Revenue effect.*—The provisions relating to OID bonds and coupon stripping (items 25 and 26) will affect fiscal year receipts in millions of dollars by: 1983.....+$171 1984.....+$319 1985.....+$473 Sum of 1983-85.....+$963	

Item	Present law
27. Business meals	In general, expenditures for business meals are deductible to the extent that they are ordinary and necessary, not extravagant or lavish, and are paid or incurred in connection with the taxpayer's trade or business or income producing activities.
28. ITC for soil or water conservation expenditures	Soil or water conservation expenditures up to 25 percent of gross income from farming may be deducted during the year incurred, instead of being charged to capital account, at the election of the taxpayer. Expenditures above the ceiling may be carried forward to subsequent years, subject to the ceiling in each year. A taxpayer may not elect to treat as deductible expenditures those items for which depreciation deductions may be taken. The investment credit is not allowed for soil or water conservation expenditures that are eligible to be expensed, but the taxpayer may claim the credit for equipment that otherwise qualifies for the credit.
29. Public utility dividend reinvestment plans	Shareholders may exclude from income up to $750 ($1,500 in case of joint return) of stock distributions from public utility corporations under qualified dividend reinvestment plans. Provision expires after 1985.

Senate provision

Any deduction otherwise allowable for business meals and beverages (unless connected with business-related travel away from home) is limited to 50 percent of expenses. (Committee amendment adopted by vote of 57 to 40.)

Effective date.—Effective for taxable years beginning after December 31, 1982.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	+$462
1984	+$1,047
1985	+$1,120
Sum of 1983–85	+$2,629

Permits farmers to elect a 10-percent investment credit for those soil and water convervation expenditures that are not expensed. (Floor amendment by Senator Pressler, approved by voice vote.)

Effective date.—Amendment applies to periods after December 31, 1982.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	−$11
1984	−$30
1985	−$31
Sum of 1983–85	−$72

Repeals this provision effective after 1982.

Effective date.—Distributions made after December 31, 1982.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	+$149
1984	+$416
1985	+$449
Sum of 1983–85	+$1,014

C. Compliance Provisions

Item	Present law
30. Withholding on interest and dividends	No income tax withholding is required on payments of interest or dividends to United States persons.

Senate provision

Provides for withholding on payments of dividends, interest, and certain patronage dividends paid to individuals (and others) at a rate of 10 percent. Exceptions are provided for:

(1) individuals with prior year tax of $600 or less ($1,000 on a joint return),

(2) elderly with prior year tax of $1,500 or less ($2,500 on a joint return),

(3) interest payments by electing payors of $100 or less on an annualized basis (Senate floor amendment by Senator Nickles increased amount from $10 to $100, adopted by vote of 97–0),

(4) small savings bond payments,

(5) payments by consumer coops,

(6) payments to corporations, governments, securities dealers, money market funds, exempt organizations, and nominees.

Interest subject to withholding generally includes most interest (including original-issue discount), other than interest paid by individuals, or State and local governments on tax-exempt obligations, or paid to nonresident aliens or foreign corporations.

Dividends subject to withholding generally are distributions out of accumulated earnings and profits other than payments to nonresident aliens and foreign corporations.

Patronage dividends subject to withholding do not include per-unit retain allocations or consent-type qualified written notices of allocation paid as part of a patronage dividend unless such patronage dividend was paid at least 50 percent in money or qualified check (Senate floor amendment by Senator Andrews on qualified written notices adopted by voice vote).

The Treasury is to adjust the deposit rule for withheld taxes to reflect start-up costs of withholding agents.

Banks may be temporarily exempted from withholding when compliance would impose an undue burden. (Senate floor amendment by Senator Levin deleting limitation of exemption to small banks adopted by voice vote.)

Effective date.—In general, these provisions apply to paid or credited after December 31, 1982.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	+$4,156
1984	+$3,555
1985	+$3,984
Sum of 1983–85	+$11,695

Item	Present law
31. Reporting on interest	Payors of interest aggregating $10 or more must file an information return with the IRS and provide a copy to the payee. These provisions do not apply to interest on: (1) obligations of the U.S. and non-corporate issuers or (2) corporate bearer obligations.
32. Registration of bonds	Generally, there is no registration requirement; however, recent tax-exempt bond provisions have required registration (housing bonds and certain energy bonds).

Senate provision
Expands definition of interest to include interest on all registered obligations and on all obligations of a type issued to the public, but not to include interest on short-term obligations held by corporations. There are exceptions for payments by natural persons, by or to foreign persons, or to State or local governments. Original issue discount is subject to reporting. Under regulations, financial institutions acting as middlemen could elect to report interest paid on any obligation on a transactional basis. Middlemen could provide statements to payees immediately, except for amounts over $10, a statement would be required during the next January. *Effective date.*—Amounts paid after 1982.
Requires registration of most Federal, State, local and private obligations under a flexible book entry system. Exceptions are provided for: (1) short-term obligations (1 year or less), (2) obligations not of a type offered to the public, (3) obligations of natural persons, (4) obligations that are (a) payable outside the U.S. (b) in a form reasonably designed so they cannot be sold or resold to U.S. persons (c) not payable to a U.S. person unless in registered form at the time of payment. Failure to issue in registered form results in sanctions on the issuers and the holder of: (1) loss of tax-exemption for interest on State and local obligations, (2) loss of interest-paid deduction and the corresponding adjustment to earnings and profits by the issuer, and (3) an excise tax (1 percent of principal for each year to maturity) at the time of issue on the issuer other than issuers of tax-exempt bonds subject to (1) above. *Effective date.*—Obligations issued after 1982.

Item	Present law
33. Broker returns	The Secretary may, by regulation, require brokers to file information returns concerning profits and losses of their customers. There are no regulations under this provision. Barter exchanges are not brokers for reporting or third-party summons purposes.
34. Information reporting requirements for payments of remuneration for services and direct sales	
a. Payments of remuneration	Generally, a person engaged in a trade or business must file an information return with respect to payments to another person aggregating $600 or more in the calendar year. This obligation applies to payments of wages, salaries, commissions, fees, other forms of compensation for services, and other fixed or determinable gains, profits, or income.
b. Direct sales	There is no reporting requirement with respect to sales of consumer products for resale.
(i) General rule	
(ii) Elective requirement	
35. Reporting of State and local income tax refunds	There is no requirement for information reports regarding income tax refunds, credits or offsets.

Senate provision	
Reenacts and clarifies broker reporting authority. Requires statements to customers. Treats barter exchanges as brokers for reporting and summons purposes. Requires that regulations on commodity and securities brokers be issued within 6 months. *Effective date.*—Day of enactment, except summons change for barter exchanges effective in 1983.	
a. Generally the same as present law, except that a separate provision applies to payments for services in the course of a trade or business.	
b.(i). Unless a direct selling business elects otherwise, it will be required to report gross purchases of consumer products for resale to any buyer purchasing $5,000 or more of such products in a calendar year. *b.(ii).* Instead of reporting gross purchases of products for resale, a direct seller may elect to report commissions and other remuneration aggregating $50 or more in the calendar year. If this election is made, the direct seller also must file a return identifying all buyers to whom aggregate sales of $600 or more are made during the calendar year. (Floor amendment by Senator Symms, increasing aggregate sales threshold from $250 to $600, adopted by voice vote.) *Effective date.*—The provision generally applies to payments made after December 31, 1982. However, the reporting requirements for direct sales apply to sales after December 31, 1983.	
The person who makes refunds or credits, or allows offsets of State or local income taxes aggregating $10 or more to an individual in any calendar year must file a report with the I.R.S. Statements must be furnished to recipients at anytime before February of the following year. (Senate floor amendment by Senator Hayakawa adopted by voice vote deleted requirement for statements during January). *Effective date.*—Effective for payments, etc., after 1982.	

Item	Present law
36. Penalties for failure to file information returns	The penalty for failure to file an information return generally is $10 per return (with a $25,000 cap). The penalty does not apply to failures due to reasonable cause.
37. Penalty for failure to supply Taxpayer Identification Number (TIN)	The penalty for failure to provide a required TIN is $5 per failure.
38. Backup withholding where no or inaccurate TIN	An obligation to withhold does not depend upon whether or not a TIN is provided.
39. Penalties for failure to provide information with respect to payments of remuneration for services and direct sales	For most types of information returns, the penalty for failure to file, or to provide statements to recipients, is $10 per failure, with a maximum aggregate penalty for each type of failure of $25,000 for any one calendar year.
a. Basic penalty	

Senate provision	
Penalty for failure to file information returns increased from $10 to $50, but not to exceed $50,000 in any calendar year. Penalty for intentional disregard of filing requirement is not less than 10 percent of amount required to be reported (5-percent in the case of a broker) or $100 per failure in direct seller cases with no dollar limit. ***Effective date.***—Returns due (without extension) after 1982.	
Increases civil penalty from $5 per failure to $50 for: (1) failure to supply TIN, (2) failure to furnish TIN to another person, or (3) failure to include another person's TIN in any document. Provides for a $50,000 cap on the penalty. Intentional disregard for number (3) would result in $100 penalty with no limit. ***Effective date.***—Returns due (without extensions) after 1982.	
Withholding at 15-percent rate on failure to supply TIN when required or supplying incorrect TIN to person required to file information return. Beginning and ending of withholding obligations subject to 7-day grace periods. ***Effective date.***—Payments made after 1983.	
a. A new penalty is imposed on a person who (1) fails to file a required return regarding payments for services or regarding direct sales, (2) fails to furnish a statement to the person named on the return, or (3) fails to include the entire amount required to be included on any return or statement.	

Item	Present law
a. Basic penalty (Cont.)	
39. Penalties for failure to provide information with respect to payments of remuneration for services and direct sales (Cont.) *b. Double penalty* *c. Minimum penalty* *d. Statute of limitations exception*	
40. Minimum failure to file penalty	There is no penalty for failure to file a return unless there is an underpayment of tax.
41. Form of information returns	No provision.
42. Penalty for promoting abusive tax shelters	There is no civil penalty specifically directed at tax shelter promoters.

Senate provision	
The penalty is one percent for each month while the failure continues (but not to exceed five percent) of the amount required to be included on the return or statement but not so included. For failures with respect to direct sales reporting, the penalty is one-fifth of one percent per month, but not to exceed one percent of the amount not included.	
b. The penalty is doubled if failure to comply with the reporting requirements is due to intentional or reckless disregard of the law. *c.* The mininum penalty is $50 per failure. *d.* The Internal Revenue Service generally is prohibited from assessing this new penalty unless it is assessed, or a proceeding to collect it has begun, within six years after the last date for filing the return or statement. ***Effective date.***—The penalty generally applies to payments after December 31, 1982. Penalties imposed on direct sellers apply to sales made after December 31, 1983.	
Imposes a $100 minimum penalty for failures to file which persist more than 60 days. ***Effective date.***—Returns due (with extensions) after 1982.	
Regulations may require returns to be filed in machine readable form. Regulations must be cost effective and may not prevent individuals from filing income tax returns on paper forms. ***Effective date.***—Date of enactment.	
An assessable penalty equal to $1,000 or 10% of gross income derived or to be derived from the activity is imposed on persons who directly organize or sell abusive tax shelters. An abusive tax shelter is any "plan or arrangement" (such as a partnership) in which the organizer or seller makes— (1) a statement on tax benefits which he knows is false or fraudulent, or (2) a valuation error on services or property of more than four times the correct value. The Secretary may waive all or part of the gross overvaluation penalty if the valuation had a reasonable basis and was made in good faith. ***Effective date.***—Date of enactment.	

Item	Present law
43. Injunctions	The U.S. may seek to enjoin violation of the return preparer provision.
44. Procedural rules	For purposes of the penalty for willful attempts by return preparers to understate the tax liability of any person: (1) the burden is on the Secretary, (2) the deficiency procedures do not apply, and (3) District Court review is available on payment of 15% of the penalty.
45. Penalty for substantial understatement	Generally, no penalty is imposed on an underpayment of tax unless the return is not timely filed, or the underpayment is due to fraud or neglect. However, a penalty may be imposed on substantial valuation overstatements without regard to fault. Interest is payable on an underpayment of tax at the predominate prime rate.

Senate provision
At request of Secretary, U.S. may seek to enjoin conduct subject to the promoter penalty. *Effective date.*—Effective day after date of enactment.
For purposes of the penalty for promoting abusive tax shelters, the penalty for aiding and abetting in the underpayment of tax by a third person, and the penalty for frivolous returns: (1) the burden of proof is on the Secretary, (2) the deficiency procedures do not apply, and (3) District Court review is available on payment of 15% of the penalty. *Effective date.*—Effective the day after the date of enactment.
A penalty of 10 percent is imposed on any substantial understatement of tax. The amount of the understatement is reduced by: (1) (a) other than in the case of a tax shelter, the portion of understatement for which a taxpayer believed he had substantial authority. (Floor amendment by Senator Armstrong which provides for substantial authority test instead of more likely than not standard, adopted by voice vote.) (b) in the case of a tax shelter, the portion of understatement which taxpayer believed was more likely than not the correct treatment. (2) In the case of a non-tax shelter understatement, the portion of understatement attributable to any item with respect to which the taxpayer discloses the relevant facts. An underpayment of tax is substantial if it exceeds 10 percent of the amount required to be shown on the return and $5,000 ($10,000 for corporations). A tax shelter is defined as a transaction the principal purpose of which is the evasion or avoidance of Federal income tax. The Secretary may waive all or part of the penalty on a showing by the taxpayer of reasonable basis and good faith. *Effective date.*—This penalty is effective with respect to returns the due date of which (not including extensions) is after 1982.

Item	Present law
46. Penalities for aiding and abetting understatement of tax liability	Presently, only return preparers may be subject to a civil penalty for aiding or assisting another fraudulently to understate tax. A criminal penalty, however, may be imposed on any person who willfully assists, etc., in the presentation of false or fraudulent returns or documents.
47. Penalty for frivolous returns	There is no penalty for filing a frivolous return unless there is an underpayment of tax.

Senate provision	
Imposes a civil penalty on persons who (1) aid, assist in, etc., the preparation or presentation of any portion of a document under the Internal Revenue laws, which (2) the person knows will be used under such laws, and (3) the person knows that such portion will (if used) result in an understatement of the tax liability of a third party. The penalty is $1,000 per document ($5,000 for corporate documents) limited to one document per third party per year. Aiding does not include clerical or other mechanical assistance in the preparation process. This penalty cannot be imposed when the preparer penalty may be imposed. *Effective date.*—Effective on day after date of enactment.	
$500 penalty on frivolous returns. A return is not "frivolous" if it has merely an inadvertent mathematical or clerical error. *Effective date.*—Effective for documents filed after date of enactment.	

Item	Present law
48. Relief from criminal penalty in certain cases of failure to pay estimated taxes	Theoretically, a person may be criminally liable for underpaying estimated taxes even if no civil penalty may be imposed.
49. Third-party summonses	
a. Right to stay compliance	A taxpayer may stay the compliance by certain third-party recordkeepers with a summons seeking records of the taxpayer by mailing a notice to the IRS and the recordkeeper within 14 days. The IRS must then go to court to enforce the summons.
b. Duties of recordkeeper	There is, currently, no rule stating when a third-party recordkeeper being summoned must begin to prepare to answer the summons.

Senate provision
If a civil penalty may not be imposed on a person who underpays estimated taxes because of a specific exception to that penalty, the criminal penalty also may not be imposed. *Effective date.*—Effective on date of enactment.
a. The taxpayer can stay compliance only by bringing court action to quash the summons within 20 days. IRS would still have the burden of proof, etc., as under present law. Barter exchanges are defined as third-party recordkeepers. *Effective date.*—Effective for summonses served after 1982. *b.* Recordkeeper must proceed to assemble documents immediately. Secretary may certify that no motion to quash has been filed. *Effective date.*—Effective for summonses served after 1983.

Item	Present law
50. Limitation on use of administrative summons	An administrative summons: (1) may only be used for the purpose of determining liability for Internal Revenue taxes, (2) cannot be used once the IRS has institutionally abandoned its civil tax case.
51. Withholding on pensions, annuities, and certain deferred income.	
a. Periodic payments (typically annuity payments)	Income tax generally is not required to be withheld unless a voluntary withholding request by the recipient is in effect.
(i) Withholding rates	
(ii) Election	
(iii) Notice	
b. Total distributions under qualified pension, etc., plans.	Income tax is not required to be withheld.
(i) Withholding rates	
(ii) Election	
(iii) Notice	

Senate provision
Administrative summons can be used: (1) to inquire into any offense connected with the internal revenue laws, and (2) can be used only before or after a Justice Department referral. A Justice Department referral includes: (1) a recommendation by the Secretary of the Treasury to the Attorney General for a grand jury investigation, (2) a recommendation by the Secretary of the Treasury to the Attorney General for a criminal prosecution, (3) a request for information made by the Attorney General to the Secretary of the Treasury. Each taxable year (or period) is treated separately. ***Effective date.***—Effective the day after date of enactment.
a. (i) Unless the recipient elects not to have withholding apply, tax would be withheld on periodic payments as if those payments were wages pursuant to the recipient's withholding certificate. Absent a certificate, tax would be withheld if the annual pension exceeds approximately $5,400. *a. (ii)* A recipient could elect (for any reason) not to have the withholding rules apply. The election would be effective until the end of the calendar year, unless revoked earlier. *a. (iii)* A payor is required to notify a recipient of his right to make, renew or revoke an election not earlier than 6 months and not later than 2 months before making the first payment. In addition, annual notice must be provided within the 90-day period ending on October 31 of each year.
b. (i) Unless the recipient elects out, tax would be withheld from total distributions made from qualified pension, etc., plans under special rules designed to reflect the 10-year forward averaging and capital gains treatment provided for lump-sum distributions. *b. (ii)* A recipient could elect not to have withholding apply only to the extent that the recipient provides notice that the distribution will be rolled over to an IRA, etc. *b. (iii)* The payor must notify a recipient of his right to make, renew, or revoke an election no later than the time of distribution or an earlier date provided by regulations.

Item	Present law
51. Withholding on pensions, etc. (Cont.)	
c. Other non-periodic distributions	Income tax is not required to be withheld.
(i) Withholding rates	
(ii) Election	
(iii) Notice	
52. Pension reporting requirements	
a. Reports	*a.* In general, distributions under a tax-qualified plan or annuity contract are required to be reported only if the amount includible in income totals $600 or more for the calendar year. Distributions from an IRA are required to be reported without regard to the amount of the distributions.
b. Penalties	*b.* Penalties generally apply to any person failing to file a required report.
53. Pension recordkeeping requirements	No provision.

Senate provision

c. (i) Unless the recipient elects out, tax would be withheld at a flat 10-percent rate.

c. (ii) At any time prior to receiving the nonperiodic distribution, a recipient could elect not to have the withholding rules apply. Generally a new election need be made with each distribution.

c. (iii) A payor must notify a recipient of his right to make, renew or revoke an election no later than the time of distribution or such earlier date as provided by regulations.

Effective date.—The provisions apply to payments made after December 31, 1982.

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a. Employers, plan administrators, payors and issuers of insurance or annuity contracts are required to report certain information without regard to a $600 threshold. The form and manner of reporting will be determined under regulations prescribed by the Secretary of the Treasury.

b. As under present law, penalties apply to any person failing to provide a required report, unless the failure was determined to be due to reasonable cause and not due to willful neglect.

Effective date.—The reporting requirements will be effective on January 1, 1983.

A new penalty is imposed if the data base needed for reports is not maintained, whether or not reports are due for the period during which the recordkeeping failure occurs. No penalty is imposed for failure to meet the recordkeeping rules when the failure is due to reasonable cause and not willful neglect. Also, no penalty is imposed for a recordkeeping failure that is due to a prior failure with respect to which the penalty has already been imposed, or which occurred before 1983, if all reasonable efforts have been made to correct the prior failure.

Effective date.—The recordkeeping penalties are effective on January 1, 1985.

Item	Present law
54. Partial rollovers of IRAs	Distributions from an IRA are eligible for tax-free rollover treatment only if the entire amount of the distribution is rolled over to another eligible retirement plan. In contrast, distributions from qualified plans are eligible for tax-free rollover treatment to the extent of any amount so transferred.
55. Foreign investment in U.S. real property	Under legislation enacted in December of 1980, foreign investors in certain U.S. real property interests are taxable by the U.S. on the gain realized when they dispose of the interest. The provisions are enforced through complex information reporting. The legislation overrides certain nonrecognition provisions of the Code to insure U.S. taxation of the gain.
56. Jurisdiction over non-residents	
a. U.S. citizens and residents	The Code specifically confers jurisdiction to enforce an administrative summons only when a U.S. citizen or resident resides or is found in a U.S. judicial district.
b. Foreign entities	There is no procedure to require timely production of documents held abroad by controlled foreign corporations or tax-haven banks.

Senate provision
Distributions from IRAs are eligible for tax-free rollover treatment to the extent that the distribution is rolled over to another eligible retirement plan. *Effective date.*—Applies to IRA distributions made after December 31, 1982.
Taxation of foreign investors on disposition of U.S. real property interests would be enforced through withholding. Purchasers of U.S. real property interests from foreign owners, and certain of their agents, would be required to withhold a portion of the purchase price. Protections against liability are provided so that withholding would apply only if the purchaser or his agent had actual knowledge or had received formal notice that the seller was foreign. Agents for the transferor would have to withhold if they had reason to believe, or notice and failed to notify the transferee. Withholding would not apply to a purchaser buying a principal residence for $200,000 or less, or to sale of stock on an established U.S. market. The Secretary could reduce or eliminate withholding on request in certain other cases. The Secretary is authorized to remove current reporting obligations that are not needed because of withholding. *Effective date.*—Withholding for amounts paid on or after 30 days after enactment.
Extends jurisdiction and summons power of D.C. district court to reach U.S. citizens and residents not present in the United States. *Effective date.*—The day after the date of enactment. Same as present law.

Item	Present law
57. Penalty for failure to furnish information returns with respect to certain foreign corporations.	When a taxpayer fails to furnish adequate information about a foreign corporation he controls, he is subject to a penalty reducing the relevant foreign tax credit by 10 percent. Additional penalties of five percent of the credit accrue quarterly on continuing failure.
58. Returns with respect to foreign personal holding companies.	Certain information returns are required of officers, directors, and 50-percent U.S. shareholders of companies that are FPHC's at year's end. Some return requirements overlap. Moreover, staggered filing dates may cause repetitive paperwork. There is no civil penalty for failure to file.
59. Authority to delay date for filing certain returns relating to foreign corporations and trusts.	Acquisition of a 5-percent interest (or an additional 5-percent interest) in a foreign corporation or the creation of or transfer of property to a foreign trust causes a U.S. person to have to file an information return. Beginning service as an officer or director of a foreign corporation creates a similar requirement. The returns are due 90 days after the triggering events.
60. Technical amendment to section 905(c).	The last sentence of section 905(c) appears to provide that interest on a U.S. tax underpayment triggered by a refund of foreign taxes begins to run before receipt of the refund. Other Code provisions begin the running of interest on receipt of the refund and provide a penalty for failure to report a refund.
61. Interest compounded daily	Under present law, interest owing to, or from, the Treasury under the tax laws is not compounded.

Senate provision	
Supplements the existing penalty by adding an alternative flat penalty of $1,000 per tax year for which failure exists. Ninety days after notification of failure, additional $1,000 penalties accrue every 30 days, up to a $24,000 maximum. Amounts paid under the flat $1,000 penalty reduce amounts due under the existing penalty reducing the foreign tax credit. ***Effective date.***—Applies to annual accounting periods ending after the date of enactment.	
Gives the Commissioner flexibility in setting due dates and waiving duplicate filings for foreign personal holding company reports and returns and makes changes in reporting requirements. Adds a $1,000 civil penalty for failure to file a proper return. ***Effective date.***—Applies to taxable years of foreign corporations beginning after the date of enactment.	
Gives the Commissioner flexibility to delay the date for reporting of certain transactions relating to foreign corporations and foreign trusts beyond the current due date. ***Effective date.***—Applies to returns filed after the date of enactment.	
Eliminates the last sentence of section 905(c). ***Effective date.***—Applies to all years.	
Interest is compounded daily. ***Effective date.***—Effective for interest accruing after 1982.	

Item	Present law
62. Determination of rate of interest to be made semiannually	Under present law, the rate of interest charged by, or payable to, the Treasury under the tax laws is established each October 15, based on the average predominate prime rate during September of that year, effective the following January 1.
63. Restrictions on payment of interest	Under present law, interest on overpayments runs from the date of overpayment, which is generally the due date of the return. If an overpayment is refunded within 45 days after the due date of return (or if return is late, within 45 days of the date the return is filed), no interest is payable on overpayment. Overpayments due to net operating loss, net capital loss, or credit carrybacks are treated as having arisen at the close of the loss year.
64. Disallowance of deductions and credits with respect to illegal sale of drugs	Presently, the expenses of illegal trafficking of drugs, such as heroin, are allowable as business expense deductions or deductions for a transaction entered into for profit.
65. Sense of Congress with respect to additional funds for Internal Revenue Service	No provision.
66. Report on forms	No provision.
Revenue Effect of Compliance Provisions	

Senate provision	
Interest rates determined semiannually based on average prime rate for the six months ending September 30 (effective following January 1) and March 31 (effective the following July 1). ***Effective date.***—Effective for adjustments taking effect after 1982.	
No interest on overpayment claimed on late returns until filed. No interest due until return is in processible form. Interest due on refunds due to carrybacks will not accrue for any period prior to date refund is claimed or otherwise applied for. ***Effective date.***—The provisions apply (1) to returns filed after the 30th day after enactment, except (2) limitation on interest on carrybacks applies to payments of interest made after the 30th day after the date of enactment with respect to interest to interest accruing after the 30th day after enactment.	
Disallows any deduction or credit for any amount paid or incurred in any trade or business which consists of trafficking in controlled substances (drug). ***Effective date.***—Effective for amounts paid or incurred after the date of enactment in taxable years ending after such date.	
It is the sense of the Congress that additional funds, above those proposed for fiscal 1984 and 1985, be appropriated to the IRS to provide such additional enforcement as is necessary to increase revenues $1 billion in 1984 and $2 billion in 1985. ***Effective date.***—Date of enactment.	
Requires a report to Congress on improvement of forms to achieve greater accuracy in the reporting of income and the matching of information reports no later than June 30, 1983. ***Effective date.***—Effective upon enactment.	
The compliance provisions [1] will affect fiscal year receipts in millions of dollars by: 1983 ..... +$2,058 1984 ..... +$2,569 1985 ..... +$3,362 Sum of 1983–85 ..... +$7,989	

[1] Other than provisions on reporting on non-employees (items 34 and 39).

D. Pension Provisions

Item	Present law
67. Overall limits on contributions and benefits	
a. Defined contribution plans	Contributions are limited to the lesser of (i) 25 percent of compensation or (ii) $25,000, adjusted for post-1974 inflation ($45,475 for 1982).
b. Defined benefit plans	Annual benefits are limited to the lesser of (i) 100 percent of compensation or (ii) $75,000, adjusted for post-1974 inflation ($136,425 for 1982).
c. Cost-of-living adjustments	The dollar limits are adjusted annually to reflect post-1974 cost-of-living increases as measured by the CPI.
d. Early retirement age	The dollar limit ($136,425 for 1982) is actuarially reduced if benefits commence before age 55.
e. Aggregate limit	The aggregate limit for an individual who participates in a defined contribution plan and a defined benefit plan of the same employer is 1.4 (i.e., a combined limit not to exceed 140 percent of the otherwise applicable separate dollar or percentage limits for defined benefit or defined contribution plans).

Senate provision	
a. The dollar limit is reduced to $30,000.	
b. The dollar limit is reduced to $90,000. The determination as to whether alternative benefit forms (e.g., lump sum distributions) are actuarially equivalent to this annual benefit limit is to be computed using an interest assumption of at least 5 percent.	
c. Cost-of-living adjustments are temporarily suspended. Beginning in 1986, the dollar limits will be adjusted for post-1984 cost-of-living increases (as measured by the index used to adjust social security benefits). Employers cannot deduct contributions to fund anticipated cost-of-living increases.	
d. The dollar limit ($90,000 for 1983) is actuarially reduced (using an interest assumption of at least 5 percent) if benefits commence before age 62.	
e. The aggregate limit is the lesser of 1.25, as applied only to the dollar limits, or 1.4, as under present law.	
Effective date.— (i) For plans which were not in existence on July 1, 1982, the provisions apply to plan years beginning after July 1, 1982. (ii) For plans in existence on July 1, 1982— (A) deductions for plan years beginning after December 31, 1982, would be based on the bill's limits, but (B) plan amendments would not be required for plan years beginning before January 1, 1984. (iii) Transitional rules insure that benefits already earned under an existing plan are not reduced on account of the bill's lower limits.	

Item	Present law
68. Loans from retirement plans	A qualified plan is generally permitted to make reasonable loans to participants, except— (i) an H.R. 10 plan is not permitted to make loans to owner-employees (sole proprietors and 10 percent partners); (ii) a subchapter S plan is not permitted to make loans to shareholders-employees (5 percent shareholders); and (iii) if a self-employed individual borrows from an H.R. 10 plan (or an individual borrows from an IRA), the loan is treated as a distribution, subject to the usual income tax rules.
69. Parity between corporate and noncorporate plans	Plans which benefit self-employed individuals or owner-employees are subject to additional, more restrictive, qualification requirements designed to restrict benefits for self-employed individuals and provide additional protections for rank-and-file employees. These additional restrictions include limits on contributions or benefits which may be provided on behalf of self-employed individuals. (i) In defined contribution H.R. 10 plans, deductible contributions are generally limited to the lesser of (A) $15,000, or (B) 15 percent of earned income. Similar limits apply to contributions for shareholder-employees under subchapter S plans and employer contributions to Simplified Employee Pensions (SEPs). (ii) In defined benefit H.R. 10 plans, benefit accruals are restricted under a special schedule designed to permit a benefit equivalent to that which could be provided by accumulated contributions under a defined contribution H.R. 10 plan. Similar limits apply to benefits for shareholder employees under subchapter S plans. (iii) The $15,000 limit is not adjusted for cost-of-living increases.

Senate provision	
(i) *General rule.*—Loans to any participant are treated as distributions to the extent that the participant's outstanding balance from all plans exceeds $10,000. (ii) *Exception* (floor amendment by Senator Packwood, approved by voice vote).—If a participant applies the loan proceeds to acquire, construct, reconstruct, or substantially rehabilitate a qualified dwelling used as a personal residence for that participant or a family member, loans are treated as a distribution to the extent that the participant's outstanding balance from all plans exceeds the greater of— (A) $10,000 or (B) the lesser of $50,000 or one-half the participant's nonforfeitable benefits. (iii) The bill does not change the present-law rules governing loans from H.R. 10 plans and IRAs. ***Effective date.***—The bill applies to loans made after July 1, 1982. Loans in existence on that date which are renegotiated, revised, extended, or renewed will be treated as made on the date of the renegotiation, etc.	
(i) The dollar limits applicable to defined contribution H.R. 10 plans, plans of subchapter S corporations and SEPs, are increased from $15,000 in 1982 to $20,000 in 1983, $25,000 in 1984, and $30,000 in 1985. (ii) A corresponding revision increases permitted accruals under a defined benefit H.R. 10 pension plan and plans of subchapter S corporations. (iii) Beginning in 1986, the bill adjusts the dollar limits for post-1984 cost-of-living increases.	

Item	Present law
70. Retirement savings for church employees	
a. Annual exclusion allowance	Public schools and certain tax-exempt organizations (including churches) may contribute to a tax-sheltered annuity contract for an employee. Annual contributions excluded from an employee's income are limited to 20 percent of the employee's compensation multiplied by the number of the employee's years of service with the employer, reduced by amounts already contributed by the employer.
b. Catchup contributions	Employer contributions to a tax-sheltered annuity are also subject to the overall limit on annual additions to tax-favored retirement savings arrangements. Special, one-time elections increase the overall limit for a year to allow contributions in that year that are permitted under the exclusion allowance on account of prior years of service. The elections are not available to most church employees.
c. Church-maintained retirement income accounts	Tax-sheltered annuity contracts for employees generally are purchased from insurance companies. Custodial accounts investing in stock of a regulated investment company (e.g., a mutual fund) are also permitted.
d. Correction period	Subject to certain limitations, retroactive changes to pension, etc., plans are permitted under the tax-qualification rules to allow a plan to maintain its tax-qualified status for the period for which the change is made.

Senate provision	
a.—(i) For a church employee whose adjusted gross income for the year does not exceed $17,000, the exclusion allowance is not less than the lesser of $3,000 or 100 percent of the employee's compensation from the church. For a foreign missionary, compensation from the church includes amounts contributed to a tax-sheltered annuity. (ii) All years of an employee's service with organizations that are parts of a particular church are treated as years of service with one employer, and all contributions by the organizations are treated as contributions by one employer.	
b.—(i) The special elections under the overall annual limit are made available to all church employees. (ii) An additional election is provided only for a church employee under which the overall limit is increased by up to $10,000 for any year, not to exceed $40,000 for an employee for his lifetime.	
c. Churches may maintain defined contribution retirement savings programs for employees under the tax-sheltered annuity rules. Retirement program assets generally must be segregated from other church assets.	
d. Churches are permitted a period for making retroactive amendments to pension plans or tax-sheltered annuity programs. The permitted correction period is to take into acount that church governing bodies may meet at lengthy intervals.	
Effective dates.—The provisions relating to the increased exclusion allowance for certain church employees applies to taxable years beginning after December 31, 1981. The provision relating to church-maintained retirement income accounts applies to taxable years beginning after December 31, 1974. The retroactive amendment period rules apply as of July 1, 1982.	

Item	Present law
71. State judicial retirement plans	State or local government employees may defer compensation under an eligible State deferred compensation plan, subject to prescribed annual limits. If a plan of a State or local government is not an eligible plan, amounts under the plan are includible in an employee's income when there is no substantial risk of forfeiture.
72. Profit-sharing, etc., contributions for disabled employees	Contributions to a tax-qualified profit-sharing or other defined contribution plan generally may not be made for an employee after the employee separates from the service of the employer.
73. Participation in group trusts by governmental plans	A group trust is exempt from tax if each of the participating trusts is a qualified trust forming a part of a qualified pension, etc., plan or an IRA.

Senate provision	
Participants in a qualified State judicial plan are not required to include benefits in gross income merely because there is no substantial risk that the benefits will be forfeited. The plan must be a mandatory retirement plan for State judges under which each judge contributes the same percentage of income and receives a retirement benefit based upon compensation paid to sitting judges. The plan must have been continuously in existence since December 31, 1978, and must meet certain additional requirements. ***Effective date.***—The provision applies to taxable years beginning after December 31, 1978.	
An employer may elect to continue deductible contributions to a profit-sharing or other defined contribution plan for an employee (other than an officer, owner, or highly compensated individual) who is permanently and totally disabled. For this purpose, a disabled employee's compensation is deemed equal to his annualized compensation prior to his becoming disabled. The elective contributions must be nonforfeitable when made. ***Effective date.***—The provision applies to years beginning after December 31, 1981.	
A retirement trust forming a part of a retirement plan of a State or local government (or agency or instrumentality thereof) could participate in an exempt group trust without regard to whether the governmental trust is a qualified trust or the governmental plan is a qualified plan. ***Effective date.***—The provision applies to taxable years beginning after December 31, 1981. ***Revenue effect.***—The pension provisions (items 67 to 73) will affect fiscal year receipts in millions of dollars by: 1983 ..... $206 1984 ..... $578 1985 ..... $663 Sum of 1983–85 ..... $1,447	

E. Insurance Provisions

Item	Present law
74. Taxation of life insurance companies and annuities.	
a. Reinsurance arrangements	
(i) Modified coinsurance	Modified coinsurance, commonly referred to as "Modco", is a type of reinsurance agreement under which the company transferring some of its risks (the "ceding" company) retains ownership of the assets connected with the risks reinsured and also retains the reserve liabilities connected with the risks reinsured. In consideration, the company which has agreed to assume the risks under the agreement (the "reinsurer") receives both premium income and investment income attributable to the policies reinsured from the ceding company.
(ii) Policyholder dividend reimbursements	In the case of a conventional coinsurance arrangement between life insurance companies, the reinsurer is treated as having paid policyholder dividends to the extent the ceding company is reimbursed for its payment of such dividends.
(iii) Coinsurance funded with a note	No special rules provided.
(iv) Related party allocation rules for reinsurance arrangements	No special rules provided. Proposed Treasury regulations would require recharacterization of experience refunds received by a ceding company (whether or not related to the reinsurer) in connection with a modified coinsurance arrangement to reflect allocable portion of investment income.
(v) Grandfather protection	No special rules restrict IRS audit authority to examine transactions for lack of business purpose, etc.
b. Policyholder dividends	The deduction for policyholder dividends (and certain other special deductions) is limited to $250,000 plus the amount by which gain from operations (computed without regard to these deductions) exceeds taxable investment income.

Senate provision	
a. (i) The modified coinsurance provisions would be repealed. Existing agreements would be treated as terminated on January 1, 1982. Reinsurers would be permitted to pay the tax attributable to termination treatment in installments over a 3-year period.	
a. (ii) The present law rule would be continued.	
a. (iii) Interest deductions would be denied for debt obligations issued by a ceding company in connection with reinsurance arrangements.	
a. (iv) Authority would be granted to IRS to recharacterize items in connection with a reinsurance arrangement between related taxpayers if necessary to reflect proper source and character of taxable income.	
a. (v) Pre-1982 Modco transactions are grandfathered except in the event of fraud.	
Effective dates.—Generally, effective as of January 1, 1982. The special allocation authority for related party reinsurance contracts would apply to contracts entered into after date of enactment.	
b. The $250,000 limit would be increased to $1 million, subject to an affiliated group limit, and phased-out for larger companies (from $4 to $8 million in dividends paid).	

Item	Present law
74. Taxation of life insurance companies and annuities.—(Cont.)	
***b. Policyholder dividends.*—(Cont.)**	
c. Life insurance reserves and contract liabilities	
(i) Revaluation of preliminary term reserves	Present law permits taxpayers to revalue life insurance reserves computed on a preliminary term basis to a net level premium basis. Under an approximate revaluation method, reserves for other than term insurance are generally increased by $21 per $1,000 insurance in force, less 2.1 percent of reserves under such contracts.
(ii) Reserves for guaranteed excess interest.	Taxpayers have computed reserves for certain contracts, under which interest in excess of the interest required under State law has been guaranteed, to reflect the excess interest guaranteed for future taxable years.

Senate provision	
b. (Cont.) A 100-percent deduction would be allowed for policyholder dividends credited to qualified pension business. As a minimum safety-net limitation, mutual life insurance companies would be allowed to deduct 77½ percent of policyholder dividends on nonqualified business; and stock life insurance companies 85 percent. *Effective date.*—The provisions would apply for a 3-year stop-gap period beginning in 1982 and ending after 1984.	
c. The bill revises the approximate revaluation formula for preliminary term reserves by reducing the revaluation from $21 to $19 per $1,000 of other than term insurance in force, for business written after March 31, 1982.	
c. (ii) No reserve deductions would be allowed for excess interest guaranteed beyond the close of a taxable year.	

Item	Present law
74. Taxation of life insurance companies and annuities.—(Cont.)	
c. Life insurance reserves and contract liabilities.—(Cont.)	
(iii) Group pension contracts	For certain group pension contracts, companies have benefited from favorable treatment by allocating investment yield to policyholders on the basis of the current earnings rate whenever that rate exceeded the actual rate under the contract. (However, any detriment has been avoided whenever the actual rate guaranteed has exceeded the current earnings rate by removing life contingencies so that reserves for these contracts are not treated as life insurance reserves.)
(iv) Life insurance company status	Generally, more than 50 percent of a company's total reserves must consist of life insurance reserves to be treated as a life insurance company for tax purposes. Several requests for IRS rulings are pending concerning the treatment of certain pension contracts not involving life contingencies (those not containing a permanent annuity purchase rate guarantee) for purposes of applying the 50 percent definitional test.

Senate provision	
c.(iii) Beginning July 1, 1983, the amount taken into account as the policy or contract liability for a group pension contract, for purposes of determining the excludable policyholder share of investment yield, is limited to the amount of interest actually credited to the policyholder. The intention is to eliminate the so-called "double-dip" available under present law with respect to these contracts. (Floor amendment by Senators Dole and Dodd, adopted by voice vote.)	
c.(iv) For any taxable year ending before January 1, 1985, life insurance company status for a company will not be changed by treating pension reserves for contracts without a permanent annuity purchase rate guarantee as not being life insurance reserves. (Floor amendment by Senators Dole and Dodd, adopted by voice vote.)	
Effective dates.—The reduction for revaluing preliminary term reserves is effective for taxable years beginning after 1981 and before January 1, 1985, but only for business written after March 31, 1982. The limitation on computing reserves for guaranteed interest is effective for guarantees made after July 1, 1982, and before January 1, 1985. The limitation on interest credited to group pension contracts applies to periods beginning after July 1, 1983 and before January 1, 1985. The provision dealing with the status of a company as a life insurance company applies to taxable years ending before January 1, 1985.	

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Item	Present law
74. Taxation of life insurance companies and annuities.—(Cont.)	
d. Menge formula	Under present, law, a formula, commonly called the "Menge" formula, is used to compute the amount of adjusted life insurance reserves. Simply stated, the formula is a mechanical arithmetic adjustment used to compute adjusted life insurance reserves. This computation is then used in determining the policyholders' share of investment yield and accordingly affects the computation of a life insurance company's taxable investment income. The formula operates to reduce life insurance reserves (other than pension reserves) by 10 percent for each percentage point by which the adjusted reserves rate (the lower of the average earnings rate for a 5-year period or the current earnings rate) exceeds the interest rate assumed in calculating the reserves.
e. Consolidated returns	For consolidated return reporting purposes, some taxpayers have taken the position that taxable income first is determined for each component member of the affiliated group (e.g., taxable investment income for some companies and gain from operations for others) and then consolidated by adding those separate company taxable income bases. This approach is sometimes referred to as the "bottom line" method of consolidation. The ruling position of the Internal Revenue Service, as taken in letter rulings, has been that the taxable investment bases and the gain from operations bases first must be aggregated to arrive at consolidated group amounts and then these aggregate tax bases (taxable investment income and gain from operations) would apply for the consolidated group. This approach is sometimes referred to as a "phase-by-phase" method of consolidation.

Senate provision	
d. A geometric "Menge" formula is provided to compute adjusted life insurance reserves for purposes of allocating investment yield to policyholders. ***Effective date.***—The provision applies to taxable years beginning after December 31, 1981, and before January 1, 1985	
e. A "bottom-line" method of consolidation is allowed for determining consolidated life insurance company taxable income. Further, the Internal Revenue Service cannot disturb a bottom-line reporting position taken in a consolidated return, including an amended return, filed for taxable years ending before 1982. ***Effective dates.***—The stopgap provision applies to taxable years beginning after December 31, 1981, and before January 1, 1985. The grandfather protection applies to taxable years beginning before 1981 for returns filed before July 1, 1982, and to taxable years beginning in 1981 for returns filed before September 16, 1982.	

Item	Present law
74. Taxation of life insurance companies and annuities.—(Cont.)	
f. Allowance of deduction for excess interest	IRS position—excess interest credited by an issuing company with respect to certain deferred annuity contracts is a policyholder dividend subject to statutory deduction limitation. Taxpayer position—excess interest is fully deductible as an increase in reserves for guaranteed contractual benefits.

Senate provision	
f. Provision allows 100% deduction for qualified annuities. *Eligible interest.*—Deduction for interest allowed if it is guaranteed: (1) in advance at a fixed rate or formula, and (2) for a period of not less than 12 months. *Eligible contracts.*—Eligible contracts would be annuity contracts which are: (1) nonqualified, (2) involve life contingencies, (3) are nonparticipating contracts under State law (or participating, only if elected by the taxpayer), and (4) provide for the payment of excess interest. *Amount deductable.*—Amount of deduction will be: (1) for nonparticipating contracts, 100% of total interest credited, (*i.e.*, assumed interest plus excess interest); and (2) for participating contracts, 92½% of total interest credited. (Item 2 added by floor amendment by Senators Dole and Dodd; adopted by voice vote.) ***Effective date.***—(1) Provisions apply for taxable years beginning after December 31, 1981. (2) Contracts with interest guarantees for less than 12 months and issued before January 1, 1983, are grandfathered if they are in compliance with the new provisions on January 1, 1983.	

Item	Present law
74. Taxation of life insurance companies and annuities.—(Cont.)	
g. Amounts received under annuity contracts	Taxation of interest or other current earnings on a policyholder's investment in an annuity contract generally is tax deferred until annuity payments are received or amounts characterized as income are withdrawn.
(i) Distributions before the annuity starting date.	Amounts paid out before the annuity starting date (e.g., upon partial surrender) are first a return of capital and are taxable (as ordinary income) only after investment in the contract is recovered.
(ii) Penalty for early withdrawals	There is no tax penalty for withdrawals or surrenders before the annuity starting date or before a certain age.

Senate provision	
g.(i) Amounts received before the annuity starting date will be treated first as withdrawals of income earned on investments, then as a return of capital. Loans under the contract, or amounts received upon assignment or pledging of the contract, will be treated as amounts received under the contract. These provisions do not apply to: (1) income amounts allocable to investments made before July 2, 1982. (2) endowment or life insurance contracts, except to the extent prescribed in regulations, or (3) contracts under qualified plans. *Effective date.*—Provisions apply as of July 1, 1982. *g.(ii)* Penalty is imposed on income received (1) equal to 10% of the income amount, (2) to the extent the income is allocable to an investment made within 10 years of the receipt of such income. Penalty will not apply to a distribution (1) made on or after policyholder reaches age 59½, (2) made to a beneficiary on or after death of policyholder, (3) attributable to policyholder becoming disabled, (4) which is a payment under an annuity for life or at least 5 years, (5) from a qualified plan, or (6) allocable to an investment before July 2, 1982. *Effective date.*—Penalty applies to distributions after December 31, 1982.	

Item	Present law
74. Taxation of life insurance companies and annuities.—(Cont.) ***h. Flexible premium contracts***	Gross income does not include proceeds of a life insurance contract paid by reason of the death of the insured. The IRS ruled that the entire amount paid upon death under a universal life insurance contract is thus excluded from gross income even though the death benefit may reflect a large cash fund and a relatively small amount of pure insurance protection. The IRS is reconsidering this position.

Senate provision	
h. Proceeds from a flexible premium contract will be excludable if certain requirements are satisfied. *Eligible contracts.*—"Flexible premium life insurance contract" means a life insurance contract which may contain certain qualified additional benefits which: (1) provides for payment of one or more premiums that are not fixed by the insurer as to both timing and amount, and (2) does not provide any annuity benefits other than as settlement options. Qualified additional benefits are guaranteed insurability, accidental death benefit, family term coverage, or waiver of premium. *Guideline tests.*—Death proceeds from such contracts will be excluded from gross income only if: (1) the sum of the premium paid under the contract does not at any time exceed the guideline premium limitation, and (2) the death proceeds payable are not at any time less than the applicable percentage of the cash value. The IRS will have discretion to allow correction of excessive premium payments, allows 30 days after the close of the contract year to return excessive premium payments with interest to the policyholder, and allows otherwise disqualifying premium payments if necessary to prevent a termination of the contract. *Premium limitation.*—The guideline limitation is the greater of: (1) the single premium at issue necessary to fund future benefits under the contract, based on mortality and interest (at a rate not less than 6%), or (2) the sum of the level annual premiums (over the life of the contract, but not less than 20 years) computed on the same basis as in (1) except that the interest rate used cannot be less than 4%. In additional there are three computational rules to be used in determining a guideline single premium and guideline level premium. *Applicable percentage.*—The applicable percentage follows a sliding scale. This is, 140% of cash value for insureds of age 40 or less, decreasing 1% per year to 105%, for age 75 and above. ***Effective date.***—(1) Provisions apply to contracts issued before January 1, 1985. (2) Any contract issued before October 1, 1982, that complies with the new guidelines within one year after enactment shall be treated as being in compliance for all prior periods.	

Item	Present law
74. Taxation of life insurance companies and annuities.—(Cont.)	
i. Indeterminate premium policies	In a private letter ruling, issued in June, 1982, the IRS held, among other things, that the excess of the maximum premium chargeable over the premium actually collected should be treated as a distribution of policyholder dividends which is paid back as a premium to the company.
j. Underpayments of 1982 estimated taxes	A nondeductible penalty is imposed on underpayments of estimated taxes.
Revenue Effect of Insurance Provisions	

Senate provision	
i. For taxable years beginning before 1982, amounts that could have been charged as a premium or mortality charge, but were not, will not be included in premium income.	
j. The underpayment penalty will not apply to underpayment periods ending before December 15, 1982, to the extent an underpayment is created or increased by the provisions of the bill affecting life insurance companies.	
Revenue effect.—The insurance provisions will affect fiscal year receipts in millions of dollars by: 1983 ..... $+1,985 1984 ..... $+1,538 1985 ..... $+2,201 Sum of 1983–85 ..... $+5,724	

F. Employment Tax Provisions

Item	Present law
75. Alternative standards for determining classification of workers for employment tax purposes and extension of interim relief provision	
a. Overview	Common law (i.e., nonstatutory) rules generally apply in determining whether particular workers are treated as employees or as independent contractors (self-employed persons) for Federal employment tax purposes. (Certain individuals are treated as statutory employees for FICA (social security) tax purposes. These are: certain agent—drivers or commission—drivers, full-time life insurance salespersons; home workers performing services on goods or materials, and full-time traveling or city salespersons.)
b. Interim relief relating to classification controversies	Section 530 of the Revenue Act of 1978 provides interim relief to certain businesses involved in employment tax status controversies with the Internal Revenue Service if there was a reasonable basis for treating workers as independent contractors. This provision was effective through June 30, 1982.

Senate provision	
a. The satisfaction of a safe-harbor test results in classification of a worker as an independent contractor for Federal employment tax purposes (other than under the Railroad Retirement Tax Act). A statutory FICA tax employee may be classified under the safe-harbor for income tax purposes. The safe-harbor requirements relate to (1) control of hours worked, (2) place of business, (3) investment or income fluctuation, (4) written contract and notice of tax responsibilities, and (5) the filing of required returns.	
b. Interim relief is extended through December 31, 1982.	

Item	Present law
75. Alternative standards (Cont.)	
c. Safe-harbor test	
d. Effect on other laws	

Senate provision	
c. (1) *Control of hours worked.*—The worker must control both the aggregate number of hours worked and also substantially all of the scheduling of those hours. Limitations on scheduling are disregarded if they result from government regulatory requirements, from operating procedures and specifications that are imposed on the service-recipient by another party pursuant to contract, from coordination (by a person other than the service-recipient) with the performance of other service, or from control of access to any premises. (2) *Place of business.*—No principal place of business may be provided by the service-recipient unless the worker pays a fair rental. (3) *Investment or income fluctuation.*—The worker either must (a) have a qualifying investment in tangible assets that are used in performing the service or (b) risk income fluctuations because substantially all of the cash or other remuneration for performance of the service is directly related to sales or other output rather than to the number of hours worked. (4) *Written contract and notice of tax responsibilities.*—The worker must (a) perform services pursuant to a written contract that provides the worker will not be treated as an employee for purposes of employment taxes, income tax withholding, and certain employee benefit provisions and (b) be given written notice of his or her tax responsibilities. (5) *Filing of required returns.*—The service-recipient must satisfy all information return requirements.	
d. A worker who fails the safe-harbor test is classified under the usual common-law rules. Qualification under the safe-harbor generally creates no inference with respect to status under provisions of law other than Federal employment tax provisions. However, workers who are classified under the safe-harbor may not be treated as employees for purposes of the tax provisions relating to employer-provided group-term life insurance, employee death benefits, accident and health benefits, group legal services, educational assistance programs, dependent care assistance programs, and pension, profit-sharing, stock bonus, or annuity plans.	

Item	Present law
75. Alternative standards (Cont.) ***e. Employment tax treatment with respect to participation in certain home-health care programs.***	
76. Reduction of certain employment tax liabilities where workers are reclassified as employees.	If a worker reclassification occurs, the employer generally is responsible for all employment tax liabilities (income tax withholding, both the employer's and the employee's share of FICA taxes, and FUTA taxes) with respect to the reclassified workers. Federal income tax withholding assessments may be adjusted if the reclassified worker pays (or has paid) the proper amount of income tax. A FICA-SECA offset is authorized only if the reclassified worker is prevented from filing for a refund of the SECA tax paid in error.
77. Tax Court jurisdiction over certain employment tax issues.	The U.S. Tax Court does not have jurisdiction over disputes involving Federal employment taxes.

Senate provision	
e. Remuneration for services performed by certain individuals under a qualified State home-health care program will not be subject to Federal employment taxes except to the extent that the State elects to treat them as employees for social security tax purposes. ***Effective date.***—The provisions apply to services performed after December 31, 1982.	
Reduced liability is provided in certain reclassification cases. Generally, an employer will be liable for 1.5 percent of wages (3.0 percent if no information returns were filed) if the employer erroneously treated the worker as a nonemployee for income tax purposes. If the employer erroneously treated the worker as a nonemployee for social security tax purposes, the employer will be liable for 20 percent of the worker's share of FICA tax that should have been withheld (40 percent if no information returns were filed). These reduced liabilities do not apply if the employer treats a worker as a nonemployee with intentional disregard of the law. ***Effective date.***—The provision is effective on enactment, but does not apply to assessments made before January 1, 1983.	
The jurisdiction of the U.S. Tax Court is extended to include employment tax reclassification issues. ***Effective date.***—The provision applies with respect to employment tax liabilities arising out of services performed after December 31, 1982. ***Revenue effect.****—The independent contractor provisions (nos. 34, 39 and 75–77) will affect fiscal year receipts in millions of dollars by: 1983 ..... −$207 1984 ..... −$86 1985 ..... +$86 Sum of 1983–85 ..... −$207	

*The revenue estimate takes into account the reporting requirements and penalties applicable to direct sales and compensation for services performed by nonemployees. The safe-harbor provisions are estimated to reduce fiscal year budget receipts by $234 million in 1983, $214 million in 1984, and $157 million in 1985.

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Item	Present law
78. Federal Unemployment Tax (FUTA) provisions.	Under the Federal Unemployment Tax Act (FUTA), employers are subject to a payroll tax of 3.4 percent on the first $6,000 of wages per employee per year. If a State unemployment insurance law meets the requirements of Federal law, employers in that State generally receive a 2.7 percent credit against the Federal tax, for a net Federal tax of 0.7 percent. The net effective Federal tax rate will automatically drop by 0.2 percent (to 0.5 percent) when the general fund of the Treasury is repaid the outstanding loans made to the extended benefit account. The Federal tax credit may be reduced for employers in States with certain outstanding loans from the Unemployment Trust Fund.
79. Extension of Social Security hospital insurance taxes and Medicare coverage to Federal employees.	Federal employees do not pay Hospital Insurance taxes nor do they become entitled to Hospital Insurance benefits on the basis of Federal employment.

Senate provision	H.R. 6878 [1]
Effective January 1, 1983, the FUTA wage base is increased to $7,000, and the Federal tax rate is increased to 3.5 percent thus increasing the net Federal tax to 0.8 percent. Effective January 1, 1985, the tax rate is increased to 6.2 percent (a permanent tax of 6.0 percent and an extended benefit tax of 0.2 percent), and the credit which employers receive against the tax is increased to 5.4 percent. The progressive reduction of the FUTA credit applicable to States in default is retained as under present law.	Same as Senate provision except that, in addition, modifies the allocation of Federal unemployment tax revenues among accounts in the Federal Trust Fund. Sixty percent of the revenue raised by the 0.8 tax rate (or 0.48 percentage points) is allocated to the Administration Account (ESAA) and 40 percent (or 0.32 percentage points) to the Extended Benefits Account (EUCA). Upon repayment of the Federal general revenue advances to EUCA, the elimination of the 0.2 percent temporary tax will reduce the net FUTA tax rate to 0.6 percent. At this point, the allocation to EUCA will be reduced to 20 percent of the revenue raised by the 0.6 tax rate (or 0.12 percentage points).
Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... +$1,404 1984 ..... +$2,353 1985 ..... +$2,856 Sum of 1983–85 ..... +$6,613	***Revenue effect.***—Same as Senate provision.
Federal employees will be subject to the FICA hospital insurance tax. (The tax is imposed at the rate of 1.3 percent of wages received during 1982–1984, 1.35 percent of wages received during 1985, and 1.45 percent of wages received after December 31, 1985.) Federal employees will receive Medicare coverage after paying hospital insurance taxes for the required period of time, except that eligibility conditions will be relaxed for certain Federal employees who have attained age 57 by 1983. This is effective on January 1, 1983.	Substantially similar to Senate provision. A transition provision assures that individuals employed by the Federal government both during and before January 1983 will be able, if necessary, to have their pre-January 1983 Federal employment considered for determining Part A eligibility.
Revenue effect.—The provisions will affect fiscal year receipts in millions of dollars by: 1983 ..... +$617 1984 ..... +$837 1985 ..... +$927 Sum of 1983–85 ..... +$2,381	***Revenue effect.***—Same as Senate provision.
Net deficit reduction [2].—The net deficit reduction, in millions of dollars, is: 1983 ..... +$739 1984 ..... +$1,001 1985 ..... +$1,106 Sum of 1983–85 ..... +$2,846	***Net deficit reduction*** [2].—The net deficit reduction, in millions of dollars, is: 1983 ..... +$739 1984 ..... +$1,000 1985 ..... +$1,103 Sum of 1983–85 ..... +$2,842

[1] H.R. 6878, introduced by Mr. Rostenkowski and Mr. Gradison, reflects the decision made on July 15, 1982, by the Ways and Means Committee on spending reductions mandated by the budget resolution.

[2] The net deficit reduction includes additional receipts and additional offsetting receipts (treated in the budget as negative outlays), net of additional outlays.

G. Excise Tax Provisions

Item	Present law
80. Airport and Airway taxes	
a. Air passenger ticket tax	5-percent tax on domestic air passenger tickets (8 percent from July 1970–Sept. 1980).
b. Air freight waybill tax	None (5-percent tax from July 1970–Sept. 1980).
c. International departure tax	None ($3 tax per person from July 1970–Sept. 1980).
d. Noncommercial (general) aviation fuels tax	(1) 4 cents per gallon tax on gasoline (7 cents per gallon from July 1970–Sept. 1980). (2) No current tax on other fuels (7 cents per gallon from July 1970–Sept. 1980).
e. Aircraft tires and tubes	Tires taxed at nonhighway rate (4.875 cents per pound); tubes at 10 cents per pound.
f. Exemptions from tax	(1) Exemptions are provided from the fuels taxes for fuels used on a farm for farming purposes, and for fuels used by State and local governments and by nonprofit educational organizations. (2) Exemptions are provided from air passenger and waybill taxes for small aircraft on nonestablished lines and for private air transportation services within a group of affiliated corporations.

Senate provision	
	H.R. 4800 (Reported by Committee on Ways and Means) [1]:
a. 8 percent.	*a.* 5 percent.[2]
b. 5 percent.	*b.* 5 percent.
c. $3 per person.	*c.* $5 per person.
d. (1) 12 cents per gallon on gasoline. (2) 14 cents per gallon on other fuels.	*d.* (1) 12 cents per gallon on gasoline. (2) 12 cents per gallon on other fuels.
e. Same as present law.	*e.* Same as present law.
f. (1) An exemption from the fuels taxes is provided for helicopters not utilizing Federal-aid airports or Federal airway facilities when used in (a) timber operations or (b) natural resource exploration or development.	*f.* No provision.
f. (2) A further exemption from the air passenger ticket tax is provided for certain helicopters (see (1) above). (Senate floor amendment by Senator Stevens, approved by voice vote).	*f. (2)* No provision.

[1] In addition, H.R. 4800 repeals the present prohibition against charging aviation users for overtime costs associated with services provided by the U.S. Customs Service personnel during regularly scheduled hours (e.g., 8:00 a.m.—5:00 p.m.) on Sundays and holidays, effective July 1, 1982.

[2] Three other modifications were made to the air passenger tax:

(1) Effective July 1, 1982, the 6-hour layover rule will be increased to 12 hours for purposes of determining whether the flight will be treated as uninterrupted international travel subject only to the departure tax (i.e., not subject to the domestic ticket tax).

(2) The Secretary of the Treasury will be granted the authority to waive the 225-mile zone rule if Canada or Mexico enter into a "qualified agreement" regarding the tax to be applied to persons traveling by air between the United States and that country with the objective of eliminating double taxation of travel between the countries or within the 225-mile zone.

(3) The requirement that the ticket fare and tax be shown by trip segments is repealed, effective from the date of enactment of the bill. The requirement for separately showing the total airfare and total ticket tax is retained.

Item	Present law
80. Airport and Airway taxes (Cont.)	
g. Effective date of tax provisions	
h. Transfer of aviation tax revenues	Air passenger ticket tax revenues currently go into the general fund; Aviation gasoline tax revenues currently go into the Highway Trust Fund; Aircraft tires and tubes tax revenues currently go into the Highway Trust Fund. (For the period July 1970–Sept. 1980, the revenues from these and prior law aviation taxes went into the Airport and Airway Trust Fund.)
i. Transfer of Trust Fund statute to Internal Revenue Code	The Airport and Airway Trust Fund provisions were established by section 208 of the Airport and Airway Revenue Act of 1970, and are included in 49 U.S.C. § 1742.
j. Trust Fund expenditure authority	Trust Fund expenditures currently are authorized through September 30, 1981.
k. Trust Fund expenditure purposes	Trust Fund expenditures are authorized to be appropriated to meet obligations under— (1) Title I of the Airport and Airway Development Act of 1970, or of the Airport and Airway Development Act of 1976, or of the Aviation Safety and Noise Abatement Act of 1979, or under the Fiscal Year 1981 Airport Development Authorization Act (as such Acts were in effect on the date of enactment of the 1981 Act); (2) the Federal Aviation Act of 1958, as amended, attributable to "planning, research and development, construction, or operation and maintenance of (i) air traffic control, (ii) air navigation, (iii) communications, or (iv) supporting services, for the airway system"; or (3) for certain administrative expenses of the Department of Transportation under (1) or (2).

Senate provision	
g. Tax changes effective on September 1, 1982 (on a permanent basis), with the air passenger, freight waybill, and departure tax changes effective for tickets or waybills purchased on or after September 1, 1982.	**H.R. 4800 (cont.)** *g.* July 1, 1982–December 31, 1983 (for transportation during this period or fuels purchased during this period); present law tax rates will apply after 1983.
h. (1) Beginning on September 1, 1982, the revenues from the above aviation excise taxes will go into the Airport and Airway Trust Fund (on a permanent basis). *h. (2)* A Senate floor amendment to title IV (sec. 406(e)) by Senator Packwood includes a provision to terminate the aviation excise taxes going into the Trust Fund and the authority to make Trust Fund expenditures for airway improvement program costs (under sec. 407—airway facilities and equipment, research, engineering and development, and operations and maintenance expenses (including weather reporting services)), if amounts obligated in any fiscal year for airport development are less than 85% of the amounts authorized. The termination of tax and spending provisions could be overridden by a joint resolution of the Congress.	*h. (1)* The revenues from the above aviation excise taxes will go into the Airport and Airway Trust Fund, for the period July 1, 1982–December 31, 1983. *h. (2)* No provision.
i. The Airport and Airway Trust Fund statute is transferred to the Internal Revenue Code, effective September 1, 1982.	*i.* The Airport and Airway Trust Fund statute is transferred to the Internal Revenue Code, effective July 1, 1982.
j. Extends Trust Fund expenditure authority on a permanent basis. (Title IV of the Senate bill provides Trust Fund authorizations for fiscal years 1982–1987.)	*j.* Extends Trust Fund expenditure authority through fiscal year 1983. (H.R. 2643, the authorization bill reported by the Committee on Public Works and Transportation, provides Trust Fund authorizations through fiscal year 1983.)
k. Updates the authorized Trust Fund expenditures to include the Airport and Airway System Development Act of 1982 (as added by title IV of the Senate bill), and limits the Trust Fund obligations or expenditures for airway improvement program costs (non-airport development costs) to 75% of FAA expenditures each fiscal year.	*k.* Updates the authorized Trust Fund expenditures to include the Airport and Airway System Development Act of 1982 (as added by H.R. 2643 as reported by the House Committee on Public Works and Transportation).
Revenue effect.—The aviation tax provisions will affect fiscal year receipts in millions of dollars by: 1983 ..... +$813 1984 ..... +$957 1985 ..... +$1,084 Sum of 1983–85 ..... +$2,854	***Revenue effect.***—The aviation tax provisions will affect fiscal year receipts in millions of dollars by: 1983 ..... +$266 1984 ..... +$106 1985 ..... +$0 Sum of 1983–85 ..... +$372

Item	Present law
81. Increase in cigarette excise taxes	
a. Taxes on small and large cigarettes	A manufacturers excise tax equal to $4 per thousand (8 cents per pack) is imposed on small cigarettes (i.e., cigarettes weighing no more than 3 pounds per thousand). Generally, a tax equal to $8.40 per thousand is imposed on large cigarettes, except that higher rates apply to large cigarettes that exceed 6.5 inches in length.
b. Sunset of tax increase	No sunset date.
c. Floor stocks tax	When the cigarette excise taxes were increased in 1951, a special tax was imposed on floor stocks held for sale by any person on the effective date of the increase. The tax was equal to the excess of the increased tax rate over the former lower rate. The floor stocks tax had to be paid by the end of the month after the month in which the increase was effective.
82. Increase in telephone excise tax	The tax rate is 1 percent in calendar years 1982, 1983 and 1984. The tax terminates for bills rendered on or after January 1, 1985.

Senate provision	
a. The manufacturers excise taxes on small and large cigarettes are doubled, effective for cigarettes removed from bonded premises after December 31, 1982.	
b. The increase in the cigarette excise taxes expires on September 30, 1985 (floor amendment by Senator Helms, approved by a vote of 60 to 37).	
c. A floor stocks tax equal to the excess of the new tax rates over the pre-1983 rates is imposed on cigarettes held for sale on January 1, 1983, by any person other than a retailer. The floor stocks tax must be paid on or before January 18, 1983.	
Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by :	
1983 +$1,275 1984 +$1,829 1985 +$1,859 Sum of 1983–85 +$4,963	
The rate is increased to 2 percent in calendar year 1983, 3 percent in 1984 and 1985, and 2 percent in years after 1985.	
Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:	
1983 +$308 1984 +$881 1985 +$1,600 Sum of 1983–85 +$2,789	

Item	Present law
83. Windfall Profit Tax TAPS adjustment repeal	The windfall profit tax base price of Sadlerochit oil is adjusted upward by the amount by which the Trans-Alaska Pipeline System (TAPS) tariff falls below $6.26.
84. Windfall Profit Tax on Alaska Native Corporations	Oil produced by native corporations "organized under the Alaska Native Claims Settlement Act" (ANCSA) from lands received under the Act is exempt prior to 1992.

Senate provision	
The TAPS adjustment is repealed. ***Effective date.***—Oil removed after December 31, 1982. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983 +$90 1984 +$145 1985 +$154 Sum of 1983–85 +$389	
The exemption would be modified to refer to corporations "organized pursuant to" ANSCA. This would include wholly owned subsidiaries of native corporations. (Senate floor amendment by Senator Murkowski adopted by voice vote.) ***Effective date.***—Date of enactment. ***Revenue effect.***—The provision is not expected to affect budget receipts.	

Item	Present law
85. Expansion of Dingell-Johnson Fund taxes	
a. Tax on fishing equipment	A 10-percent manufacturers excise tax is imposed on the sale of fishing rods, creels, and reels, and on artificial lures, baits, and flies (including parts and accessories of such articles) by a manufacturer, producer, or importer. Revenues from the tax on fishing equipment are appropriated for the Dingell-Johnson Fund program for transfer to the States to support fish restoration and management projects.
b. Tax on boats and boating equipment	No tax imposed.
c. Time for payment of excise tax	All manufacturers excise taxes must be deposited on a monthly or semimonthly basis.
d. Transfer of revenues equal to certain tariffs to Dingell-Johnson Fund	Revenues from tariffs on imported fishing equipment and yachts and pleasure craft are deposited in the general fund.

Senate provision	
a. The items of fishing equipment subject to the 10-percent tax are expanded to include numerous fishing equipment items not presently covered. ***Effective date.***—The provision is effective beginning with the first quarter commencing after the date of enactment.	
b. A 3-percent manufacturers excise tax is imposed on recreational boats less than 20 feet in length which are designed for fishing or have a capacity label that limits the outboard motor rating to 50 horsepower or less and on certain types of boating equipment. Revenues from the 3-percent tax would be appropriated for the Dingell-Johnson Fund program. ***Effective date.***—The provision is effective beginning with the first quarter commencing after the date of enactment.	
c. The time for paying the manufacturers excise taxes on fishing equipment and boats and boating equipment is changed from monthly or semimonthly to quarterly. ***Effective date.***—The provision would be effective on October 1, 1982.	
d. An amount equal to revenues from the tariffs on fishing equipment and on yachts and pleasure craft would be appropriated for the Dingell-Johnson Fund program. ***Effective date.***—The provision would be effective on October 1, 1982. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... +$23 1984 ..... +$35 1985 ..... +$37 Sum of 1983–85 ..... +$95	

H. Miscellaneous Provisions

Item	Present law
86. Exclusion from income of National Research Service Awards	National Research Service Awards made through 1981 were treated as excludable scholarships or fellowship grants.
87. Annual accrual accounting method	Farming corporations subject to the accrual accounting requirement may use an annual accrual method if: (1) The method is used for business of growing a crop not harvested within 12 months of planting, (2) The corporation (or a predecessor corporation) used the annual accrual method for 10-year period ending with first taxable year beginning after 1975, and (3) The corporation (or a predecessor corporation) used the annual accrual method continuously since first taxable year beginning after 1975.

Senate provision	
The tax exclusion for National Research Service Awards is extended for two additional years (i.e., for awards made through 1983). ***Effective date.***—The provision applies to awards made in 1982 and 1983. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... −$8 1984 ..... −$7 1985 ..... −$4 Sum of 1983–85 ..... −$19	
The Senate provision permits use of the annual accrual method by a "qualified partnership" engaged in the business of growing sugarcane. A qualified partnership is a partnership consisting solely of corporations other than personal holding companies and subchapter S corporations. ***Effective date.***—Applies to taxable years beginning after December 31, 1982. ***Revenue effect.***—The provision is not expected to affect budget receipts.	

Item	Present law
88. Extension and revision of targeted jobs credit	The targeted jobs credit is available, on an elective basis, for hiring individuals from one or more of nine target groups. The credit is equal to 50 percent of the first $6,000 of wages paid for the first year of employment and 25 percent of the first $6,000 of wages paid for the second year of employment to a target group individual.
a. Extension of credit	The credit is available for wages paid to eligible individuals who begin work for the employer before January 1, 1983. An authorization of $30 million of appropriations is provided for fiscal year 1982 for the expenses of administering the certification system and of providing publicity to employers.
b. Target groups	An individual is a member of a targeted group if the individual is: (1) an economically disadvantaged youth aged 16 through 19 participating in a cooperative education program, (2) a recipient of money payments under a State or local general assistance program, (3) an economically disadvantaged youth aged 18 through 24, (4) a handicapped individual undergoing vocational rehabilitation, (5) an economically disadvantaged Vietnam-era veteran, (6) an SSI recipient, (7) an economically disadvantaged ex-convict, (8) an AFDC recipient or work incentive employee, or (9) an involuntarily terminated CETA employee.

Senate provision	

a. The credit is made available with respect to any member of a targeted group who begins work on or before December 31, 1985.

The $30 million authorization is extended to each of fiscal years 1983, 1984 and 1985.

b. Cooperative education students.—The requirement that cooperative education students must be economically disadvantaged to be members of a targeted group is eliminated. The credit for cooperative education students is 30 percent of the first $3,000 of wages paid for the first year of employment and 15 percent of the first $3,000 of wages paid for the second year of employment.

General assistance recipients.—Recipients of noncash, as well as cash, general assistance payments are members of a targeted group.

Summer youth.—A new targeted group is added, consisting of economically disadvantaged youths who are 16 or 17 years of age on the hiring date and who have not previously worked for the employer. The credit for this group is 85 percent of up to $3,000 of wages paid for services attributable to any 90-day period between May 1 and September 15.

Effective dates.—The extension applies to individuals who first begin work for the employer after December 31, 1982. The changes applicable to cooperative education students apply to individuals who first begin work for the employer after August 31, 1982. The changes applicable to general assistance receipts and summer youth apply to individuals who first begin work for the employer after July 1, 1982.

Revenue effect.—The provision will affect fiscal year receipts in millions of dollars by:

1983	−$245
1984	−$637
1985	−$949
Sum of 1983-85	−$1,831

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Item	Present law
89. Certain payments to foreign government officials or employees	Taxpayers cannot deduct payments to foreign government officials or employees if those payments would be illegal under U.S. law (if U.S. law applied).
90. Debt management provisions	
a. Rate of interest payable on U.S savings bonds	The Secretary, with the approval of the President, may increase the investment yield on any U.S. savings bond above the current rate in any 6-month period by no more than 1 percentage point (annual rate; compounded semiannually). Series EE savings bonds now yield 9 percent when the bonds are held to maturity, now an 8-year period. The yield on Series HH bonds is 8½ percent; these bonds have a maturity of 10 years, with the interest paid semiannually by check. The Secretary last used his discretionary authority to put these rates into effect on May 1, 1981.
b. 4¼ percent limit on interest rate on bonds	Bonds are defined as obligations of the United States which have a maturity when issued that is longer than 10 years. The rate of interest that may be paid on a bond may not exceed 4¼ percent, except that up to $70 billion in outstanding bonds with rates of interest above 4¼ percent may be held by the public.

Senate provision	
Payments to foreign government officials or employees which are otherwise deductible are not disallowed on grounds of illegality under U.S. law except payments made illegal by the Foreign Corrupt Practices Act. ***Effective date.***—Applies to payments made after the date of enactment. ***Revenue effect.***—The provision will affect fiscal year receipts in millions of dollars by: 1983 ..... −$30 1984 ..... −$30 1985 ..... −$30 Sum of 1983–85 ..... −$90	
a. The Secretary of the Treasury, with the approval of the President, could fix the investment yield on any U.S. savings bond. The Secretary also would be authorized to provide for increases and decreases in the yield on any outstanding U.S. savings bond. With this authority, the Secretary, however, could not decrease the yield on any bond for the period it is held below the guaranteed minimum yield. ***Effective date.***—Date of enactment.	H.R. 6550 and HR. 6595 (reported by Committee on Ways and Means) contain an identical provision.
b. Provides an additional $40 billion increase in the exception from the interest rate ceiling; this action would raise the exception to $110 billion. ***Effective date.***—Date of enactment.	H.R. 6550 and H.R. 6595 provide $30 billion increase in the exception, raising exception to $100 million.

Item	Present law
91. Disclosure of tax return information for nontax criminal investigation purposes	
a. Overview	Tax returns and taxpayer return information (*i.e.*, return information submitted to the Internal Revenue Service by the taxpayer or his representative) may be disclosed for nontax criminal investigation purposes only upon the grant of an ex parte order by a Federal district court judge. Return information that is submitted to the Internal Revenue Service by someone other than the taxpayer or his representative may be secured upon written request by certain officers and employees of the Federal government. The Internal Revenue Service, in certain circumstances, may disclose return information on its own initiative.
b. Disclosure pursuant to court order	Returns and taxpayer return information may be disclosed by the IRS to personnel of other Federal agencies for nontax criminal investigation purposes only upon the grant of an ex parte order by a Federal district court judge.
c. Personnel to whom tax information may be disclosed	Tax information may be disclosed only to officers and employees of a Federal agency who are personally and directly engaged in the preparation for any administrative or judicial proceeding (or any investigation that may result in such a proceeding) pertaining to the enforcement of a Federal nontax criminal statute.
d. Individuals who may authorize an application for court-ordered disclosure	The following individuals may authorize the application for a court order: the head of a Federal agency, the Attorney General, the Deputy Attorney General, or an Assistant Attorney General.

Senate provision	
a. The primary changes made by the Senate provision include: (1) the modification of the standards for the granting of an ex parte order for the disclosure of tax returns and return information; (2) an expansion in the number of personnel who would be permitted to request disclosure; (3) the disclosure of return information for purposes of locating fugitives from Federal justice; and (4) new authority for the IRS to disclose return information, on its own initiative, in emergency circumstances. (Floor amendment by Senator Nunn and others, items 91, 92, and 93, adopted by voice vote.)	H.R. 6475, which was ordered favorably reported by the Committee on Ways and Means on June 9, 1982, is the same as the Senate provision (Items 91, 92, and 93).
b. The provision allows a Federal district court magistrate, as well as a Federal district court judge, to grant an ex parte order for the disclosure of returns or return information.	
c. The provision expands the category of personnel to whom disclosure can be made to include officers and employees of a Federal agency who are personally and directly engaged in any Federal grand jury proceeding pertaining to enforcement of a Federal nontax criminal statute.	
d. The provision eliminates the authority of Federal agency heads (other than the Attorney General) to authorize disclosure applications. However, the number of individuals within the Department of Justice who could authorize applications is expanded to include: the Associate Attorney General, any United States Attorney, any special prosecutor, and any attorney in charge of a criminal division organized crime strike force.	

Item	Present law
91. Disclosure of tax return information (Cont.) *e. Court order standards*	A Federal district court judge may grant an order for disclosure if he determines that: (1) There is reasonable cause to believe, based upon information believed to be reliable, that a specific criminal act has been committed; (2) there is reason to believe that the return or return information is probative evidence of a matter in issue related to the commission of the criminal act; and (3) the information sought to be disclosed cannot reasonably be obtained from any other source, unless it is determined that, notwithstanding the reasonable availability of the information from another source, the return or return information sought constitutes the most probative evidence of a matter in issue relating to the commission of the criminal act.
f. Disclosure to locate Federal fugitives from justice	
g. Application for disclosure of return information other than taxpayer return information	The head of any Federal agency, the Attorney General, the Deputy Attorney General, or an Assistant Attorney General may obtain return information (other than taxpayer return information) by written request to the Internal Revenue Service. (This category of information is tax information that the IRS has received from someone other than the taxpayer under investigation or his representative.)
h. Contents of application for return information other than taxpayer return information	A request for return information (other than taxpayer return information) must set forth, among other information, the specific reason or reasons why the disclosure is or may be material to the proceeding or investigation.
i. Taxpayer identifying information	The name and address of a taxpayer may be disclosed, pursuant to written request, for use in a nontax criminal investigation.

Senate provision	
e. The court order standards are modified as follows: (1) Same as present law; (2) there is a reasonable cause to believe that the return or return information is or may be relevant to a matter relating to the commission of the act; and (3) the return information is sought exclusively for use in a Federal criminal investigation or proceeding concerning the act, and the information sought to be disclosed cannot reasonably be obtained, under the circumstances, from another source.	
f. Persons who can authorize an application for court-ordered disclosure will be permitted also to authorize an application for the disclosure of returns and return information solely for the purpose of locating fugitives. A Federal district court judge or magistrate would authorize a disclosure order if he determines that: (1) A Federal arrest warrant relating to the commission of a Federal felony offense has been issued for an individual who is a fugitive from justice; (2) the return of such individual or return information with respect to such individual is sought exclusively for use in locating such individual; and (3) there is reasonable cause to believe that such return or return information may be relevant in determining the location of such individual. *g.* The provision expands the number of individuals who can authorize a written request for disclosure to include the Inspector General of any Federal agency, the Associate Attorney General, the Director of the Federal Bureau of Investigation, the Administrator of the Drug Enforcement Administration, any United States Attorney, any special prosecutor, and any attorney in charge of a criminal division organized crime strike force. *h.* This requirement is modified to provide that there be a showing of the specific reason or reasons why the disclosure is or may be relevant to (rather than material to) the proceeding or investigation. *i.* A taxpayer's social security number, as well as his name and address, can be disclosed, pursuant to written request, for use in a nontax criminal investigation.	

Item	Present law
91. Disclosure of tax return information (cont.)	
j. Disclosure of return information other than taxpayer return information to apprise appropriate officials of criminal activities or emergency circumstances	Return information (other than taxpayer return information) that may constitute evidence of a violation of Federal criminal laws may be disclosed by the IRS to the extent necessary to apprise the head of the appropriate Federal agency charged with the responsibility of enforcement of such laws.
k. Use of tax information in administrative or judicial proceedings	In general, returns or return information disclosed by the IRS to a Federal agency may be entered into evidence in any administrative or judicial proceeding pertaining to enforcement of a nontax Federal criminal statute. A return or return information that was disclosed pursuant to a court order may be entered into evidence only if the court finds that it is probative of a matter in issue relevant in establishing the commission of a crime or the guilt of a party.
92. Civil damages for unauthorized disclosure of returns and return information	A person who knowingly or negligently discloses a return or return information with respect to a taxpayer, in violation of the disclosure restrictions, may be sued in a civil action for damages in a district court of the United States.

Senate provision	
j. The IRS is provided with additional authority to disclose return information (including taxpayer return information) in certain emergency circumstances. Specifically, under circumstances involving an imminent danger of death or physical injury to any individual, the IRS is permitted to disclose return information to the extent necessary to apprise appropriate officers or employees of any Federal or State law enforcement agency of such circumstances. Furthermore, under circumstances involving the imminent flight of any individual from Federal prosecution, the IRS may disclose return information to the extent necessary to apprise appropriate officers or employees of any Federal law enforcement agency of such circumstances. *k.* The use of returns and return information in judicial or administrative proceedings not involving tax administration is expanded. Specifically, this information may also be disclosed in any judicial or administrative proceeding pertaining to the enforcement of a civil forfeiture that is related to a nontax Federal criminal statute or to the extent required by court order pursuant to 18 U.S.C. sec. 3500 or rule 16 of the Federal Rules of Criminal Procedure. 18 U.S.C. sec. 3500 allows defendants, in certain circumstances to examine witnesses statements for impeachment purposes. Rule 16 deals with pre-trial discovery between the parties. ***Effective date.***—The provision takes effect on the day after the date of enactment.	
If a U.S. officer or employee knowingly or negligently discloses a return or return information in violation of the disclosure restrictions, the wronged party will be permitted to bring a civil action for damages against the U.S. (rather than against the officer or employee). ***Effective date.***—The provision applies to disclosures made after the date of enactment.	

Item	Present law
93. Disclosure of returns and return information for use in certain audits by the General Accounting Office	The General Accounting Office currently has access to tax returns and return information for the purpose of conducting an audit of the Internal Revenue Service or the Bureau of Alcohol, Tobacco, and Firearms, and for the purpose of auditing the safeguards used by other agencies to safeguard returns and return information. However, before the GAO receives tax returns or return information in connection with an audit, it must notify the Joint Committee on Taxation of the audit. The Joint Committee may disapprove an audit by a vote of at least two-thirds of its members within 30 days of receipt of notice of the proposed audit. In addition, the GAO is permitted access to returns and return information when it is acting as an agent for the Committee on Ways and Means, Committee on Finance, or Joint Committee on Taxation.
94. Veterans organizations	A post or organization of war veterans (auxiliary unit of, or trust or foundation for) is tax-exempt if: (1) organized in the U.S. or its possessions, (2) at least 75% of the members are *war veterans* and substantially all the other members are veterans or cadets, or are spouses, widows, or widowers of such individuals, and (3) no part of its net earnings inures to the benefit of any private shareholder or individual.

Senate provision	
GAO access to tax returns and return information is expanded to include any returns or return information obtained by a Federal agency for use in any agency program or activity. This information would be open to officers and employees of the GAO, and only to the extent necessary in, auditing such programs or activity. Furthermore, the GAO is permitted access to returns and return information that have not been obtained by a Federal agency in certain circumstances, provided that the agency is authorized to obtain the information for use in the program or activity that is the subject of the GAO audit. The pre-audit notification procedures of present law are retained. In addition, within 90 days after the completion of any audit with respect to which the GAO had access to tax returns or return information, the GAO is required to notify the Joint Committee on Taxation of the completion. Such written notification will include (1) a description of the use of the returns and return information by the Federal agency involved; (2) such recommendations with respect to the use of returns and return information by the Federal agency as the Comptroller General deems appropriate; and (3) a statement of the impact of any such recommendations on the confidentiality of returns and return information and on tax administration. ***Effective date.***—The provision is effective on the day after enactment.	
Changes the membership requirement to allow tax exemption for veterans organizations (meeting all other requirements), if 75% of its members are past or present members of the U.S. Armed Forces (whether or not war veterans) and its remaining membership consists substantially of cadets, or spouses, widows, or widowers of past or present members of the U.S. Armed Forces or of cadets. (Floor amendment by Senator Dole (for Sens. Goldwater and Cannon), adopted by voice vote.) ***Effective date.***—The provision will be effective upon enactment. ***Revenue effect.***—The provision will reduce fiscal year receipts by less than $5 million annually.	

Item	Present law
95. Amateur athletic organizations	Athletic organizations that teach youth or are affiliated with charitable organizations may be tax exempt and eligible to receive tax-deductible contributions. Also, certain other athletic organizations may qualify for tax exemption and tax-deductible contributions: (1) if organized and operated primarily to foster national or international amateur sports competition, (2) but only if no part of the organization's activities involves the provision of athletic facilities or equipment.
96. Applicability of private foundation rules	
a. Restrictions on business holdings	The Tax Reform Act of 1969 provided that private foundations generally may not own more than 20 percent of a business. Under transitional rules in the 1969 Act, foundations which owned more than 75 percent or 95 percent of businesses on May 26, 1969 have 15 or 20 years, respectively, to reduce their ownership interests to specified levels.
b. Charitable trusts	Trusts with solely charitable interests are generally subject to the private foundation rules, including the business holdings restrictions and the charitable distribution requirements.

Senate provision	
The provision allows tax-exempt status to amateur athletic organizations that conduct national or international competition in Olympic sports, or support and develop amateur athletes for such competition, whether or not they provide facilities to members, and whether or not their membership is local or regional in nature. (Floor amendment by Senator Stevens, adopted by voice vote.) ***Effective date.***—The provision will be effective upon enactment. ***Revenue effect.***—The provision will reduce fiscal year receipts by less than $5 million annually.	
a. The Senate provision provides that the Otto Bremer Foundation, the El Pomar Foundation, the Houston Endowment, the Public Welfare Foundation, and the Sand Springs Home may indefinitely retain certain business interests held on May 26, 1969 (if the foundation meets certain conditions). (Otto Bremer Foundation and Sand Springs Home: floor amendment by Senators Boren, Durenberger, and others, adopted by voice vote; Public Welfare Foundation: floor amendment by Senator Thurmond and others, adopted by voice vote). The Ahmanson Foundation will have an additional 5 years to meet a private foundation divestiture requirement with respect to certain stock held on May 26, 1969 (floor amendment by Senator Hayakawa, adopted by voice vote). *b.* The Senate provision provides that New London Day Trust is not subject to the private foundation rules applicable to charitable trusts, effective for taxable years beginning after November 20, 1978 (floor amendment by Senators Boren, Dodd, and others, adopted by voice vote). ***Revenue effect.***—The provisions are not expected to affect budget receipts.	

Item	Present law
97. Clarification of tax status of certain members of religious orders	Present law exempts from the term "employment", for FICA tax purposes, service performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of the ministry or by a member of a religious order in the exercise of duties required by such order. Likewise, "wages", for purposes of income tax withholding, does not include remuneration paid for similar services. However, of the Internal Revenue Service generally takes the position that a member of a religious order who is instructed by the order's superiors to obtain employment with a third party is an employee of the third party, not the religious order, and must include the remuneration remitted to the order in gross income whether or not the member has taken a vow of poverty (also, the remuneration is subject to FICA and income tax withholding).
98. Study of alternative tax systems	No specific provision.
99. Study of monetary policy	No specific provision.

Senate provision	
Income derived from services of certain members of religious orders from salaries from the Public Health Service in a leprosarium will be income of the religious organization rather than income of the members. The provision benefits the Daughters of Charity. (Floor amendment by Senator Dixon, and others, adopted by voice vote.) *Effective date.*—The provision applies to services performed after September 30, 1977. *Revenue effect.*—The provision is expected to reduce budget receipts by a negligible amount.	
The Secretary of the Treasury is instructed to conduct a study of the advisability of replacing (1) only the Federal individual income tax and (2) both the Federal individual income tax and the Federal corporate income tax with an alternative tax system. Alternatives include (1) a simplified tax based on gross income, (2) a consumption tax, and (3) the current income tax system with a broadened base and lower rates.	
The Secretary of the Treasury is instructed to submit to the tax-writing committees, no later than 6 months after the date of enactment, a study of the effects on capital markets of using the growth of debt as the long-term target of monetary policy, and using total liquid assets as the interim target of monetary policy.	

Item	Present law
100. New Jersey general revenue sharing allocation	Only taxes assessed and collected by a qualifying unit of government are counted toward the jurisdiction's tax effort.
101. Relief for the Jefferson County Mental Health Center, Lakewood, Colorado	Employees of a nonprofit organization are excluded from social security coverage unless the organization files with the Internal Revenue Service a certificate waiving its exemption from taxation.

Senate provision	
The New Jersey Franchise and Gross Receipts Taxes shall be deemed an adjusted tax of units of local government for the purpose of allocating revenue sharing funds for the quarterly period beginning on October 1, 1982. This change will remain in effect for future quarterly payment periods only if New Jersey amends its Franchise and Gross Receipts Taxes statute to provide for local retention and collection. *Effective date.*—This provision is effective for revenue sharing payments made with respect to the quarterly payment period in the quarter beginning on October 1, 1982, and ending on December 31, 1982.	
The bill authorizes the payment of $50,000 to the Jefferson County Mental Health Center, Lakewood, Colorado, in full settlement of its claims against the United States for repayment of the $74,128 the Center refunded to its employees for individual social security contributions after the Internal Revenue Service erroneously advised the Center that the contributions had been incorrectly withheld. *Effective date.*—The provision is effective on enactment. *Revenue effect.*—The provision will not affect budget receipts.	H.R. 1635, as reported by the House Committee on the Judiciary on September 22, 1981, and passed by the House on October 6, 1981, is identical to the Senate provision.

IV. REVENUE EFFECTS OF TAX PROVISIONS OF H.R. 4961 AS PASSED BY THE HOUSE AND THE SENATE

IV. REVENUE EFFECTS OF TAX PROVISIONS OF H.R. 4961 AS PASSED BY THE HOUSE AND THE SENATE

A. Estimated Revenue Effects of Tax Provisions of H.R. 4961 (Title I) as Passed by the House*

[Fiscal years, millions of dollars]

Item	1983	1984	1985	1986	1987
Award of certain litigation costs	(1)	(1)	(1)		
Modification of rules as to acceleration of accrual of taxes	−165	−124	−136	−150	−165
Treatment of certain lending or finance businesses for purposes of the tax on personal holding companies	(2)	(2)	(2)	(2)	(2)
Additional refunds relating to repeal of the excise tax on buses	(3)	(3)			
Total	**−165**	**−124**	**−136**	**−150**	**−165**

*Two other tax provisions (relating to rental of family residences and NOL carryover rule effective date) in H.R. 4961 as passed the House were subsequently enacted in H.R. 5159 (Black Lung Benefits Revenue Act of 1981, P.L. 97-119).

[1] Increases outlays by less than $5 million.

[2] Loss of less than $5 million.

[3] Loss of less than $1 million.

B. Summary of Estimated Revenue Effects of Tax Provisions of H.R. 4961 (Tax Equity and Fiscal Responsibility Act of 1982) as Passed by the Senate

[Fiscal years, millions of dollars]

Provision	1983	1984	1985	1986	1987
Individual income tax provisions	196	2,683	2,929	2,881	2,670
Business tax provisions	6,272	15,199	18,112	29,639	41,811
Compliance provisions	6,214	6,124	7,346	8,593	9,480
Pension provisions	206	578	663	752	838
Life insurance and annuities	1,985	1,538	2,201	2,935	3,167
Employment tax provisions	1,814	3,104	3,869	4,012	3,862
Excise tax provisions	2,509	3,847	4,734	2,955	3,009
Miscellaneous provisions	−38	−37	−34	−32	−30
Total, tax provisions	**19,158**	**33,036**	**39,820**	**51,735**	**64,807**
Revenue gain resulting from additional IRS enforcement personnel	2,100	2,400	2,400	1,300	600
Grand total, all provisions	**21,258**	**35,436**	**42,220**	**53,035**	**65,407**

C. Estimated Revenue Effects of Tax Provisions of H.R. 4961 (Tax Equity and Fiscal Responsibility Act of 1982) as Passed by the Senate

[Fiscal years—millions of dollars]

Provision	1983	1984	1985	1986	1987
Individual Income Tax Provisions					
Alternative minimum tax	(1)	224	255	298	307
Medical deduction	298	2,012	2,174	2,335	2,534
Ten percent casualty deduction floor	.....	666	734	800	880
Six-month holding period for capital gains	−102	−219	−234	−251	−268
Inflation adjustment for capital gains	.....	.....	(2)	−301	−783
Total, individual tax provisions	**196**	**2,683**	**2,929**	**2,881**	**2,670**
Business Tax Provisions					
Reduction in preference items	461	792	779	757	730
Investment tax credit basis adjustment	349	1,365	2,735	4,219	5,714
Limit investment tax credit to 85 percent of tax liability	152	259	213	178	164
Investment tax credit for soil and water conservation expenditures	−11	−30	−31	−34	−38
Repeal of 1985–1986 ACRS changes	.....	.....	1,541	9,907	18,442
Construction period interest and taxes	562	1,202	1,229	1,092	818
Modifications to safe harbor leasing rules	1,409	2,732	4,007	5,315	6,687
Changes in taxation of foreign oil extraction income	233	504	581	649	708
Limit on possession corporation credit	412	1,027	1,251	1,356	1,470
Private purpose tax-exempt bonds	64	262	561	885	1,217
Mergers and acquisitions	424	704	850	875	906
Completed contracts	882	2,235	2,535	2,390	2,559
Repeal of public utility dividend reinvestment plans	149	416	449	278	.....
Original issue discount and coupon stripping provisions	171	319	473	636	814
Targeted jobs credit	−245	−637	−949	−830	−181
Accelerate corporate tax payments	798	3,002	768	732	461
Disallow 50 percent of deduction for certain business meals	462	1,047	1,120	1,234	1,340
Total, business tax provisions	**6,272**	**15,199**	**18,112**	**29,639**	**41,811**
Compliance Provisions					
Withholding on interest and dividends	4,156	3,555	3,984	4,617	5,204
Other compliance provisions [3]	2,058	2,569	3,362	3,976	4,276
Total, compliance provisions	**6,214**	**6,124**	**7,346**	**8,593**	**9,480**
Pension Provisions	**206**	**578**	**663**	**752**	**838**
Life Insurance and Annuities	**1,985**	**1,538**	**2,201**	**2,935**	**3,167**

Employment Tax Provisions					
Independent contractors	−207	−86	86	128	145
FUTA tax	1,404	2,353	2,856	2,818	2,554
Federal employees medicare tax	617	837	927	1,066	1,163
Total, employment tax provisions	**1,814**	**3,104**	**3,869**	**4,012**	**3,862**
Excise Tax Provisions					
Airport and airway taxes [4]	813	957	1,084	1,210	1,350
Telephone tax [5]	308	881	1,600	1,599	1,503
Cigarette tax [6]	1,275	1,829	1,859	−34	−13
Fishing and boating equipment taxes [7]	23	35	37	38	41
Repeal of Trans Alaska Pipeline System adjustment [8]	90	145	154	142	128
Total, excise tax provisions	**2,509**	**3,847**	**4,734**	**2,955**	**3,009**
Miscellaneous Provisions					
Annual accounting method for certain joint ventures	.....	.....	.....	.....	.....
Foreign Corrupt Practices Act provisions	−30	−30	−30	−30	−30
National Research Service Awards	−8	−7	−4	−2	(1)
Relief for the Jefferson County Mental Health Center	(9)	.....	.....	.....	.....
Alaska Native Claims Settlement Corporations	.....	.....	.....	.....	.....
Veterans organizations	(2)	(2)	(2)	(2)	(2)
Amateur athletic organizations	(2)	(2)	(2)	(2)	(2)
Applicability of certain private foundation rules	.....	.....	.....	.....	.....
Certain income of religious orders from public health service leprosarium	(1)	(1)	(1)	(1)	(1)
Total, miscellaneous provisions	**−38**	**−37**	**−34**	**−32**	**−30**
Total, tax provisions	**19,158**	**33,036**	**39,820**	**51,735**	**64,807**
Revenue gain resulting from additional IRS enforcement personnel	2,100	2,400	2,400	1,300	600
Grand Total, All Provisions	**21,258**	**35,436**	**42,220**	**53,035**	**65,407**

[1] Negligible.
[2] Loss of less than $5 million.
[3] Additional gains in budget receipts are expected from the Administration's proposal to increase IRS personnel in taxpayer compliance enforcement activities: $2.1 billion in fiscal year 1983, $2.4 billion in 1984, $2.4 billion in 1985, $1.3 billion in 1986, and $0.6 billion in 1987.
[4] The figures represent net increases, after accounting for lower income tax receipts. Additional revenues from aviation excise taxes, resulting from this bill before taking account of the income tax offset are estimated at $1,084 million in 1983, $1,276 million in 1984, $1,445 million in 1985, $1,613 million in 1986, and $1,800 million in 1987.
[5] The figures represent net increases, after accounting for lower income tax receipts. Increases in general fund receipts from this tax before taking account of the income tax offset are estimated at $411 million in fiscal year 1983, $1,174 million in 1984, $2,133 million in 1985, $2,132 million in 1986, and $2,004 million in 1987.
[6] The figures represent net increases, after accounting for lower income tax receipts. Increases in general fund receipts from this tax before taking account of the income tax offset are estimated at $1,700 million in fiscal year 1983, $2,439 million in 1984, and $2,478 million in 1985.
[7] The figures represent net increases, after accounting for lower income tax receipts. Increases in general fund receipts from this tax before taking account of the income tax offset are estimated at $30 million in fiscal year 1983, $46 million in 1984, $49 million in 1985, $51 million in 1986, and $54 million in 1987.
[8] The figures represent net increases, after accounting for lower income tax receipts. Increases in general fund receipts from this tax before taking account of the income tax offset are estimated at $139 million in fiscal year 1983, $260 million in 1984, $285 million in 1985, $267 million in 1986, and $241 million in 1987.
[9] Increases outlays by $50,000.